THE FREEMAN

IDEAS ON LIBERTY

Vietnam: A Fate of Its Own

Will Constitution Trump Revolution in Eastern Europe?

Mexico: Myths and Reality

Operation Smile

MAY 1993

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THE FREEMAN
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Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533

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Editor: John W. Robbins, Ph.D.
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The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533. FEE, established in 1946 by Leonard E. Read, is a non-political, educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501(c)(3) tax-exempt organization.

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The costs of Foundation projects and services are met through donations, which are invited in any amount. Donors of $25.00 or more receive a subscription to *The Freeman*. Additional copies of single issues of *The Freeman* are $2.00. For foreign delivery, a donation of $40.00 a year is suggested to cover mailing costs.

Bound volumes of *The Freeman* are available from The Foundation for calendar years 1972 to date. *The Freeman* is available on microfilm and CD-ROM from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106. A computer diskette containing the articles from this month's issue is available from FEE for $10.00; specify either 3½″ or 5¼″ format.

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FAX (914) 591–8910

PERSPECTIVE

The NAFTA Analysis: *Not* Free Trade

Although touted as "free trade," the North American Free Trade Agreement (NAFTA) is anything but. "Free trade," by definition, is freedom from government in bartering and exchanging. Governments step aside and allow the peoples of their respective countries to exchange goods and services or associate with the peoples of other countries without any (or very little) government interference.

The NAFTA is over 1,700 pages long—741 pages for the treaty itself, 348 pages for annexes, and 619 pages for footnotes and explanations. It is difficult to see how 1,700 pages of government rules and regulations can free trade. By definition, free trade is the removal of government from the trading process, not its expansion.

Specific provisions of the treaty prove that it is the opposite of free trade. It sets up a "Free Trade Commission" and a new bureaucracy under this commission called the "Secretariat." This commission, composed of unelected officials from the participating countries, will interpret the treaty and impose its decisions on member nations. It also will resolve conflicts and enforce its decisions. This is not free trade, but an establishment and expansion of international bureaucracy over sovereign nations' trading policies.

True free trade would eliminate tariffs. The NAFTA not only keeps current tariffs in place during a fifteen-year "transition period," but also permits these tariffs to continue after this period "with the consent of the [nation] against whose good the action is taken." The NAFTA also allows government subsidies and import quotas to continue. The NAFTA will also gradually impose the strict environmental guidelines of the United States on the countries which signed the treaty.

If national leaders really wanted free trade, they could abolish unilaterally *any* barrier that hinders trade with other coun-

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tries: tariffs, quotas, subsidies, regulations, licenses, passports—everything.

—JOE OGRINC

Medicare Rules

Look at it this way. How would you feel about *your* job if it were governed by Medicare rules? You might be paid or you might not, and you couldn't tell which before you did the work. In order to receive payment, you would have to fill out a complicated form at least once (often more than once). Quite often you would have to fight with a bureaucrat and answer insulting and threatening letters. The maximum rate of payment would usually be substantially less than you could make by doing something else, for example, treating a younger person. And if you made a mistake in your paperwork, or offended a bureaucrat by acting disrespectful, or did something that was declared unnecessary after the fact, you might have to give all the money back, plus $2,000 for each mistake. Worse, you might even be forced out of your occupation altogether.

Would you continue in a job like this?

More doctors are saying that to accept a check from Medicare, you'd have to be crazy.

—JANE M. ORIENT, M.D.

National Service

Some years ago Germany enacted a "Law for National Labor Service" that required one year of service for every youth between the ages of 18 and 29. Like the current American proposals, the service was part military and part civilian. The plan was initially voluntary, but was made mandatory after two years.

The proponents of the German national service law promised that all work "undertaken by the Labor Service may only be supplementary, i.e., work which would not be undertaken in the ordinary way by private enterprise." Similar promises are made by contemporary American supporters of national service.

The German plan also praised collectivism and sharply criticized individualism and the market system. It advocated that young people be made to perform "service rendered to the German nation," and its overall purpose was "to lift men out of economic interest, out of acquisitiveness, to free them from materialism, from egoism . . . ."

The Hitler Youth were institutionalized by the "Law for National Labor Service," which operated under the premise that "the child is the mother's contribution to the state." This was the ultimate in national socialism: the nationalization of people.

This is not to suggest that the American supporters of national service are fascists or "national socialists," but to underscore what a tremendous threat to individual liberty such a program entails. Current American proposals may not sound too threatening since they are supposedly voluntary. But the Nazi program also was voluntary when it began, and, as mentioned above, there already are many powerful political supporters of mandatory national service in the United States. For these reasons, national service could pose one of the greatest threats to freedom in the coming decade.

—THOMAS J. DILORENZO

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THE FREEMAN
IDEAS ON LIBERTY

MEXICO: MYTHS AND REALITY

by Christopher Whalen

Mexico is widely recognized as one of the great economic success stories of the 1990s. Under the leadership of President Carlos Salinas de Gortari, the country has moved from a decade of crisis and internal political turmoil following the 1982 debt default to rank among the world's most attractive emerging markets. Billions of dollars in new foreign money have been invested as hundreds of state-owned companies have been sold; tariffs have been dramatically reduced or eliminated entirely; and the economy has been opened to foreign investment, reversing decades of protection for what was once a largely socialized economy.

Despite the appearance of success in material terms, in many respects Mexico in 1993 remains remarkably unchanged. Even with the economic opening engineered by Salinas, Mexico still boasts one of the most skewed distributions of income and wealth in the world, according to the World Bank. Economic opportunity remains limited to the politically powerful, so that fewer than 30 industrial groups account for more than half of annual domestic product.

Mexico also ranks among the few societies in the Western hemisphere that refuses to move toward multi-party democracy. The reluctance of Mexico to renovate its social system as it attempts to modernize economically is attributable to the longevity and flexibility of one of this century's oldest single-party political systems. Peruvian author Mario Vargas Llosa said on Mexican television early in the Salinas term: "The perfect dictatorship is not Communism, not the Soviet Union, not Cuba, but Mexico, because it is a camouflaged dictatorship. It may not seem to be a dictatorship, but has all the characteristics of dictatorship: the perpetuation, not of one person, but of an irremovable party, a party that allows sufficient space for criticism, provided such criticism serves to maintain the appearance of a democratic party, but which suppresses by all means, including the worst, whatever criticism may threaten its perpetuation in power." He hurriedly left the country immediately after making the statement.[1]

Despite the positive image conveyed abroad by official propaganda, Mexico is a mafia state; a poor, developing nation ruled by a corrupt political elite that denies its citizens the most basic rights and has saddled the nation with tens of billions of dollars in foreign debt. Mexicans lack civil liberties that Americans take for granted: freedom to speak without fear, freedom to select political representatives and labor leaders, due process and redress of grievances, and most important, freedom to live or build a private business without threat of extortion, intimidation, or even murder by police and other government officials.

It is no coincidence that the rule of Carlos Salinas has been characterized as neo-Porfirismo, a direct allusion to the 31-year

Christopher Whalen, a Washington political and financial consultant, is the editor of The Mexico Report.

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dictatorship of Pofirio Díaz, whose rule preceded the bloody 1910–1917 revolution and civil war in Mexico. "Democracy is a good principle, but its practice is only possible for those countries that have progressed [economically]," Díaz told a reporter on one occasion. In a similar vein, Salinas told *Newsweek* in 1990: "Reforms [economic and political] progress at different rates, but economic reform is the priority."[2]

Mexican writers and political organizers grimly refer to murder as "the ultimate form of censorship." Over the last three years, 28 journalists and literally hundreds of other citizens have been killed, injured, or wrongly jailed. Generally these deaths have occurred because of a conflict with the country's ruling party, the Institutional Revolutionary Party (PRI), an organization that holds elections, but controls the results with officially sanctioned fraud and pervasive dominance over the media. It is important to mention, however, that not all journalists murdered in Mexico have been killed because of political machinations. Many operate as both victims of official intimidation and victimizers, using powerful positions and the weakness of Mexican legal structures to obtain payments and special favors.[3] But in general, government influence over the media is pervasive and is actively used as a means of social governance.

Money is also an instrument of authoritarian control. The PRI-dominated public works program known as "Solidarity" will spend almost $3 billion this year distributing "grass roots" social spending in areas of opposition strength. Overall, the ruling party will expend an estimated $800 million in the 1994 presidential election, compared with a little over $100 million for all U.S. presidential campaigns in 1992. Buying votes through public works spending while government economic policies force real wages to decline below the 50 percent loss experienced between 1982 and 1989 is hardly a democratic formulation.

Like the peoples of Eastern Europe, Mexicans take promises of economic improvement to imply political opening as well. Despite government controls on political expression and the media, Mexicans increasingly have access to American television and other information media; they see that their cousins north of the Rio Grande live in relative freedom. But when they turn off their television sets, Mexicans still live in the most oppressive, regimented society in the hemisphere outside of Fidel Castro's island prison.

The resignation late in 1992 of the fraudulently elected governor of the state of Michoacán, Eduardo Villaseñor, is but the latest indication that profound changes already are underway. His removal came after months of protests and marks the third time in 12 months that the PRI was forced to admit that a race was tainted. And yet while Mexico's people are on the move, the Salinas government remains recalcitrant and unwilling to move toward political pluralism.

Americans are mostly unaware of the blooming civic awareness movement in Mexico, yet this quiet struggle for democracy involves no less a confrontation than has occurred in East Germany or Poland. Mexicans vie against a one-man regime that enjoys the support of foreign bankers, business leaders, and the U.S. government. "He is the master of all bosses. No bosses exist in Mexico without the consent and power of the President," Adolfo Aguilar Zinser said. "This is a pyramidal system by which labor union leaders, governors, and local bosses are all the administrators of a landed power which ultimately belongs to the President."[4]

Fighting Corruption With Corruption

Because Mexico's judiciary and legislature are dominated by the president and regional governors, political opponents frequently find themselves accused falsely of involvement in drug trafficking or subject to arbitrary confiscation of property for alleged "tax evasion." An extreme example of how the PRI uses legal mechanisms to punish political opponents is the case of Joaquín Hernandez "La Quina" Galicia, the former

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head of the Mexican Petroleum Workers union who was arrested as part of an "anti-corruption" effort shortly after Salinas took power.

The fact that the Petroleum Workers union chieftain was corrupt is indisputable, but La Quina's arrest in 1989 for murder and weapons possession actually was a sham manufactured by Mexican police. His subsequent conviction was an act of political revenge ordered by Salinas, not the bold stroke to fight corruption described in credulous foreign press reports. The true goal was to restore discipline among the recalcitrant oil workers, who had bankrolled Cuauhtemoc Cárdenas' successful but stolen presidential race a year before.[5]

In reality, Mexican police transported the frozen body of La Quina's alleged victim by airplane to stage the phony photographs necessary to create "evidence" for the prosecution. But such techniques are hardly new. Following the torture murder of American DEA agent Enrique Camarena in 1985, police from Jalisco state allied with the PRI took the dead U.S. drug agent's body to then-governor Cárdenas' home state of Michoacán in an attempt to blame the killing on the ambitious and popular left-wing leader.

Yet true acts of corruption routinely go unpunished. Senior officials of Petróleos Mexicanos (Pemex), the oil monopoly, recently were removed because of allegations of "massive fraud," but no prosecutions resulted. Jorge Ruíz Ascencio, Executive Coordinator of Primary Production, was reportedly purged following an investigation that uncovered a bribery scheme totaling several hundred million dollars. The Mexican attorney general's office reportedly has sufficient evidence to prosecute Ascencio, but Pemex chief Francisco Rojas is blocking legal action to avoid further negative publicity following the tragic Guadalajara gas explosion. Thus La Quina sits in prison for political crimes, but Ascencio and other senior Pemex officials enrich themselves with impunity.

Pemex officials may not fear the law, but poor Mexicans hurt or injured by the Guadalajara disaster are prevented from seeking compensation by the country's byzantine legal system. Indeed, if America exemplifies the libertarian traditions of Jefferson and Burke, Mexico is a statist nightmare, where foreign companies use the government to break lawful strikes and average citizens have neither recourse to the courts nor any protection against acts of intimidation by the police.

In a recent paper, attorney Alicia Ely-Yamin follows the career paths of several prominent police officials involved in acts of torture, murder, and violence. "What emerges is a pattern in which prominent offenders—most of them high-ranking [police] commanders—are quietly reassigned to different states after their crimes are exposed. Once in new posts, the officers continue to torture and kill until adverse publicity leads to a further 'suspension' and transfer," she writes.[6]

Salinas and the Catholic Church

While the PRI under Salinas has used very tough measures against political opponents, it has followed a different strategy with the Roman Catholic Church. Instead of confronting priests and bishops who advocate greater democratic opening and legal accountability for public officials, Salinas has seized the tactical offensive by moving to restore full diplomatic relations with Rome. Political restrictions on the church have been relaxed, and the papal envoy in Mexico City has lavished praise on the Salinas regime, which in turn has given its tacit approval for efforts to push back the advances made by other Christian sects operating in Mexico. Troublesome bishops, meanwhile, are gradually being retired or circumvented by more politically reliable members of the clergy.

In many respects, the Catholic Church in Mexico seems to be moving toward a de facto political alliance with the PRI. In March 1992, Papal envoy Jerónimo Prigione bragged publicly that other Christian sects would be "exterminated" through a vigorous effort to bring Mexicans back to Cathol-

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icism.[7] In response, Alberto Montalbo, head of the National Forum for Evangelical Churches, denounced the Vatican for attempting to reap political benefits from its rapprochement with the PRI.[8]

The efforts by Salinas to find new allies such as the Catholic Church should be seen as part of a broader effort to maintain single-party rule under the PRI, an effort that has included sophisticated efforts to either destroy or co-opt potential sources of political opposition. The Reagan and Bush Administrations deliberately ignored the grotesque political situation in Mexico, a short-sighted policy consistent with Washington's pandering approach to thuggish regimes in Communist China and Haiti.

After a fraud-tainted election brought President Salinas to power in 1988, the Bush Administration provided massive financial assistance to Mexico and naturally made a conscious decision not to broach sensitive subjects like electoral fraud, drugs, or human rights abuses. Starting with billions of dollars in bridge loans from the Treasury in 1989, and the Brady Plan a year later, "free trade" is the third leg of a broad support effort engineered by two Republican administrations in Washington and financed by the World Bank and private investors.

Facing Threats to Stability

And yet there are signs that the Salinas juggernaut is running out of steam—and foreign money. The abrupt trade opening by Salinas has hurt Mexican companies unprepared for foreign competition, causing unemployment to surge and pushing Mexico's trade balance into the red to the tune of $20 billion for 1992—100 percent above the previous year. Mexico's public and private foreign debt now totals over $120 billion, up from roughly $90 billion following the abortive 1989 Brady debt reduction plan.

The immediate threat to Mexican stability is financial. When Salinas is forced to adjust the value of the peso downward, prices for imports will soar and Mexico's ability to service its burgeoning public and private dollar debt—and buy American goods—will be considerably diminished. Another round of debt renegotiations will inevitably ensue. But more important, the fragile covenant between the government and Mexico's inflation-weary people will be shattered—and with it the now strong support for President Salinas.

The second and more ominous threat is political, however, and comes from the fact that the people of Mexico independently are building a new civic culture based on legal frameworks rather than the personalities and patronage that have characterized PRI rule. Whereas the martyrs of Tlateloco in 1968, when the Army murdered thousands of students, by and large were the children of intellectuals, today's democratic activists represent a broader cross section of the Mexican populace that increasingly includes women and, most significantly, Mexicans of Indian and mixed blood, who most often have been excluded from real economic and social power.

No one knows what the future holds for Mexico. Its economy is growing, at least for those at the very top, but its legal and political system is tyrannical. If the Mexican political and legal environment can be changed, Mexico might have a bright future in the twenty-first century. □

1. Many thanks to Andrew Reding, director, the Mexico Project, World Policy Institute in New York, for the translation of Vargas Llosa's statement.

2. Tim Padget, "El 'regreso' de Don Porfirio," *El Norte*, September 29, 1992.

3. The most recent murder of Ignacio Mendoza Castillo, apparently due to a dispute over money, is a case in point. See Alejandro Junco, "Mexican Journalists Shouldn't Feed From Hand That Slaps Them," *The Wall Street Journal*, December 4, 1992.

4. *Morning Edition*, National Public Radio, November 18, 1991.

5. See cover story, *Proceso* #187, June 29, 1992.

6. See Alicia Ely-Yamin, "Justice Corrupted, Justice Denied: Unmasking the Untouchables of the Mexican Federal Judicial Police," Mexico Project, World Policy Institute, The New School for Social Research, New York, N.Y., November 20, 1992.

7. Roughly 95 percent of Mexicans are Catholic, while only 564,000 are identified as being affiliated with evangelical Christian sects. Significantly, Mexico's educational system is atypical of the rest of Latin America in that its primary and secondary schools are almost entirely secular, a phenomenon that reflects the strong anti-clerical tradition in Mexico.

8. Lourdes López, "Acusan evangélicos a Vaticano de presionar por relaciones," *El Norte*, September 25, 1992.

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THE LIFE, DEATH, AND RESURRECTION OF AN ECONOMY

by Michael C. Monson

With the fall of Communism, economic development is now the principal concern of hundreds of millions of Eastern Europeans and citizens of the former USSR. In determining which policies to pursue, though much can be learned from the successful economies of other countries, every bit as much can be learned from countries whose economies have gone awry. This article seeks to illuminate how to develop economically by focusing on an economy that has seen perhaps the most dramatic swings of this century—the economy of Argentina.

Today, it is not widely known that for generations Argentina was the most prosperous country in Latin America. This is the story of how it got there, how it fell, and how it is now trying to get back.

Despite possessing the crown jewel of the pampas, the richest agricultural region in all of Latin America, Argentina was for the Spanish conquistadors a mere afterthought. The Spanish were interested in gold, and Argentina had none. So, while Spain focused on the mines of Mexico, Peru, and Bolivia, Argentina languished.

To protect the flow of mineral treasures back to Spain against pirates, Spain limited the routes of all trade fleets primarily to Panama and Lima. Only a few ships were permitted to land in Argentina. The sheer distances of transporting goods to the authorized ports made it effectively impossible for Argentina to export goods and made imports astronomically expensive. Buenos Aires became the most expensive city in Latin America.

Of course, all the Spanish regulations and restrictions did not stop trade, they just drove it underground. By the mid-1600s the port of Buenos Aires was brimming with Dutch and English ships engaged in open smuggling. Smuggling had become a way to survive. By the time the Spanish fleet system was abolished in 1735, 90 percent of Argentina's commerce was transacted illegally.[1]

Another thorn in Argentina's side related to the Portuguese settlement of Sacramento located just across the Rio de la Plata from Buenos Aires. The lower duties exacted by Portugal enabled Sacramento's merchants to offer lower prices than the merchants in Buenos Aires.

In addition, as if Spain was not doing enough to impoverish Argentina, Spain imposed tariffs on trade between Buenos Aires and internal South American markets. Spain also implemented controls on the flow of specie. Spain was, in effect, strangling Argentina economically.

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In response to growing protests, the Spanish Viceroy of the Rio de la Plata jettisoned the mercantile monopoly in 1777 and embraced free trade. While free trade was ostensibly limited to ships of Spanish registry sailing within the Spanish Empire, the practical effect was to liberalize trade across the board. Prosperity surged on a tidal wave of commerce. The population of the province of Buenos Aires tripled over the next 22 years. The annual exportation of hides increased nearly tenfold within five years, and customs receipts rose 20-fold in fewer than 20 years.[2] Commerce expanded so rapidly that the region quickly became the wealthiest in South America.

The Napoleonic conflict in Europe at the turn of the century caused a series of trade disruptions which led to increasingly strident demands by Argentines for unrestricted free trade. Because the merchant-monopolists made rich from Spanish trade regulations were among the most prominent supporters of continued Spanish colonial rule, Argentines increasingly looked to independence as the only means of assuring complete free trade. In 1809 a memorial was drawn up protesting the state of the economy and requesting the resumption of free trade. This memorial was a direct catalyst of the initiation in May 1810 of the revolution against Spain.

Alberdi and the Era of Free Markets

Having been impoverished by Spanish governmental regulation but made wealthy by free trade, Argentines had learned from experience the value of capitalism. Argentina was thus receptive to the ideas put forth in 1852 by Juan Bautista Alberdi, one of Argentina's greatest jurists, in his classic *Bases for the Political Organization of the Argentine Republic*. Alberdi wrote: "Today we must strive for free immigration, liberty of commerce, railroads, the navigation of our rivers, the tilling of our soil, free enterprise, not instead of our initial principles of independence and democracy, but as essential means of assuring ourselves that these will cease being mere words and will become realities."[3]

Alberdi's classic had a major influence on the drafting of the Constitution of 1853 which supported free markets and favored foreign investment. Alberdi's call for free enterprise and free immigration, though directed at all of Latin America, was most fully implemented in Argentina.

The results of embracing free-market principles were dramatic. During the 50-year period preceding World War I, Argentina experienced a phenomenal rate of economic growth, one virtually without parallel in world history. From 1865–69 through 1910–14 railway trackage grew at 15.4 percent per year from 503 kilometers to 31,104, exports at 6.1 percent from 29.6 million gold pesos to 431.1 million, and real GDP at a probable 5 percent or higher.[4]

In 1890 the new leader of Argentina refused to accept the presidency until prominent citizens lent enough money to the government to avoid defaulting on British loans.[5] It was considered critical that Argentina not be deemed an insolvent nation. This attitude helped Argentina garner massive amounts of investment from overseas. By 1889 Argentina was receiving 40–50 percent of all British overseas investment. British investments in Argentina exceeded those in either Australia or New Zealand.

Argentina's railroad system, the largest in Latin America and one of the largest in the world, was primarily built with British capital. Railroads were critical to Argentina's rapid development, and without foreign capital simply could not have been built as rapidly or as extensively.

The three decades spanning the turn of the century were years of stunning economic growth. Wheat exports rose from less than 100,000 tons per year to approximately 2,500,000. Frozen beef exports rose from less than 25,000 tons to more than 365,000. Railway mileage went from 2,800 to 21,000.[6] It was a period, for the most part, of laissez-faire capitalism. Foreign investments and immigration were encouraged. Personal liberty and economic liberty were supported.

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During this period the most influential philosopher in Argentina was the libertarian, Herbert Spencer.[7] Indeed, a leading critic attacked Spencerian philosophy for turning Argentina into "one colossal estancia, bristling with railroads and canals, full of workshops, with populous cities, abounding in riches of all kinds, but without a single learned man, artist, or philosopher."[8] While intellectuals might deplore Argentina's growing wealth, the masses did not. During this period, Argentina probably ranked second only to the United States in the number of immigrants, and was far ahead of the United States in the proportion of immigrants to total population. More than two million people poured into Argentina from 1881 through 1910. Most of the immigrants were not intellectuals but working poor looking for a better life. During these decades Argentina's economic prospects looked as attractive as those of any other country in the world.

Despite this huge influx of immigrants, from 1886 to 1914 per capita wealth grew five times as fast as the population. Argentina's per capita income equalled Germany's by 1895 and was higher than those of Austria, Italy, Norway, Spain, Sweden, and Switzerland.[9] Literacy skyrocketed from 22 percent in 1869 to 46 percent in 1895 and 65 percent in 1914, a level higher than most of Latin America would achieve even 50 years later.

In 1910 Argentina had the tenth most important economy in the world and was one of the five largest exporters.[10] Its capital was the second largest city in the Western hemisphere. Its foreign trade exceeded that of Canada.

In less than 30 years Argentina had undergone a renaissance. From the most prosperous country in Latin America it had become one of the most prosperous and admired countries in the world. Unfortunately, the free-market policies which had propelled Argentina to its economic success were now to be progressively abandoned. Argentina's demise was not swift and solely the result of a single cause. It took the Argentine government years to decimate what was at the beginning of this century one of the strongest economies on this planet.

The Decline Begins

Precursors of this decline began to appear during the Irigoyen administration which took office in 1916.[11] Though not the first Argentine leader to talk of economic nationalism, Hipólito Irigoyen was the first to give it prominence as a policy. Harangues against foreign investments became more common and strident. Legislation was passed controlling hours of work, setting minimum wages, and otherwise "protecting" workers. Now that the government was taking care of them, a law was also passed penalizing strikes.

In 1919 Argentine government expenditures began a steep ascent and the bureaucracy grew apace. In 1922 a national petroleum agency was set up to develop all newly discovered oil fields, on the basis that public utilities should be owned by the state. In 1927 a bill to nationalize Standard Oil passed the lower house but was defeated in the Senate. Around the same time, agricultural subsidies were initiated. Over the next several decades, the cost of the ever-expanding Argentine government would become a growing burden on the back of the Argentine economy.

During the 1920s a measure of anti-Americanism developed. The United States had a large share of several Argentine markets but Argentina had been unable to develop large export markets to the United States due to a variety of U.S. restrictions and constraints. Partly in response to this trade deficit, substantial increases in tariffs were promulgated in 1923 to "protect" Argentine commerce and generate more revenue for the state.[12] "League of Nations tariff studies in 1927 concluded that, although the 1925 Argentine average tariff on a representative group of manufactured commodities was below that of the United States, it was above those of Canada, France, Germany, and Italy, among others, and at about the same level as that of

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Australia."[13] While Argentina's tariffs on selected items might have been below those exacted by the United States, the ratio of total import duties to total imports was higher in Argentina as more items were subject to tariffs.

Despite the ominous trend away from capitalism, Argentina's economic growth through 1929 remained robust, comparing favorably with growth in Canada or Australia. However, from 1927 to 1929 governmental revenue dropped 1 percent while expenditures rose 34 percent, and gold convertibility was abandoned in December 1929. True governmental profligacy had arrived, with the treasury openly looted. One of the results was political destabilization. In 1930 Argentina suffered a military coup and lurched toward fascism. Military expenditures increased despite the economic depression, and protectionism was promoted through further increases in tariffs.

In response to the worsening economic and political situation, capital began to take flight. Rather than deal with the economic and political problems, the government attacked the symptoms by instituting exchange controls, suppressing unions, and initiating strict press censorship.

In 1931 a rival military faction took control. While implementing some welcome fiscal reforms, an income tax was also introduced along with the first substantial moves toward government control of the general economy—marketing control boards for meat, cereals, milk products, and wine.

Though Argentina struggled through the decade of the thirties, it was virtually the only Latin American country to maintain service on its external loans. Despite the counterproductive governmental policies, the Argentine economy was still resilient enough for 1937 Argentine per capita income to equal that of France.

Massive Intervention Unravels the Economy

Economic conditions began to unravel rapidly in the face of massive governmental intervention in the economy instituted after another military coup in 1943. The federal government increasingly intervened in provincial affairs, reducing the ability of the provinces to offset the effects of misguided federal economic policies. Political parties were banned, press restrictions increased, and political opponents harassed and threatened; all of which served to reduce the ability of Argentines to debate policy proposals.

With dissent muzzled, a plethora of decrees began to emanate from the government in late 1943. All strikes were banned. A 20 percent reduction in rural rents was decreed. A cut in Buenos Aires tram fares was ordered. The British-owned gas company was nationalized. In April 1944 the government took over the entire grain trade including grain elevators and warehouses. The government ordered a rent freeze in Buenos Aires and sought to control food prices. The government intervened in the economy whenever it thought it could gain support from some benefited constituency.

To maintain the support of the military, military spending soared from 17 percent of total governmental expenditures in 1943 to 43 percent in 1945, while the army grew from 30,000 to 100,000. This growth occurred despite Argentina's neutrality during World War II.[14]

While tariff rates in the United States steadily declined after 1932, in June 1944 Argentine tariffs were again raised substantially and quotas were imposed on a variety of imports. Protectionism became official policy, and freed from the rigors of international competition, Argentine productivity began to decay. A minimum wage was established for rural workers.

Throughout all of this, the country was deluged with propaganda justifying every new intervention. Every intervention was for the welfare of the people, another piece of "progressive" legislation. Argentina was progressing in one sense. It was progressively reducing the liberty of its citizens and, as a natural corollary, their standard of living.

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The First Perón Era

During this period one man was becoming increasingly powerful in the government. As Secretary of Labor, he began in 1944 to pour forth a torrent of enactments mandating improvements in workers' pay, vacations, pensions, housing. He intervened in strikes to impose settlements favorable to the unions, but only those unions recognized by his department, thereby undermining union leaders opposed to him. In 1946 this man, Juan Perón, became President.

Perón was a demagogue promising a higher standard of living and more political power to the workers and peasants. Having gained power on the basis of economic intervention in the economy, he now opened the floodgates. If the public mistrusted bankers, he would nationalize the banks. He did so in March 1946. If the people wanted money, he would print it. Money in circulation skyrocketed. If the state needed money, he would expropriate it. Companies throughout the country began to be nationalized.

In May 1946 he created a new agency to monopolize the trade in all major exports except wool. This agency through its monopoly bought domestic supplies at prices far below world levels and sold them overseas at gargantuan profit. The effect was devastating. Denied fair prices, producers cut back production, laying off thousands of workers who flooded into the cities.

To delude the public into thinking that the government was acting rationally, a five-year economic plan was issued in late 1946. Its primary aim was industrialization to free Argentina from "foreign shackles." Now any doubts about the wisdom of governmental policy could be dispelled by pointing to the projected results of the five-year plan. No need to worry, the government had a plan.

With businessmen no longer able to plan, as economic decisions were increasingly dictated by economic decrees emanating from the government, the economy began to falter. Rather than giving the government cause to reflect, the declining economy merely spurred the government to even more oppressive intervention.

In 1949 Perón replaced the 1853 Constitution. The new constitution gave the federal government complete control over the economy. Now the frequency of expropriations increased, strikes were opposed, and new press controls initiated. As more and more Argentines began to realize that their country's economy was crumbling, the government announced sterner measures to dampen dissent. In 1950 new treason, espionage, and contempt laws appeared. The supreme court was packed. In 1951 the government even expropriated *La Prensa*, the most prestigious paper in the country and one of the premier papers of the world. Propaganda increased, including a fatuous second five-year plan in 1952. By now the government was routinely falsifying data to obscure the bankruptcy of its economic policy.[15]

By 1950 Perón's regime was on the ropes economically, but was saved by a $125,000,000 loan from the U.S. taxpayers. Perón was free to wreak yet more havoc on the economy of Argentina.

As a result of printing money by the bushelful, inflation was accelerating. Rather than deal with its own profligacy, the government instituted a two-year wage freeze in 1952.

As a result of the 1943 rental freeze in Buenos Aires, there was now an acute shortage of rental housing in the capital.

As a result of governmental expropriation of agricultural wealth through the government's marketing monopoly, agricultural output in the Pampas region was by 1955 only 84 percent of what it had been in 1935–39. In 1909 Argentina had been the world's largest exporter of grains. By 1951 Argentina was importing wheat.

As a result of governmental trade policies and nationalizations, Argentina's economic performance began to lag the economic performance of other recently settled countries such as Australia and Canada. "Argentina turned her back on the worldwide expansion of trade, while Canada and Australia profited from it."[16] By 1954 the

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average age of a car in Argentina was 17 years.

As a result of governmental profligacy, a country that had a history of being one of the world's primary beef producers was reduced to suffering periodic bans on domestic beef sales, "meatless days," in order to funnel all available beef to the export market to generate hard currency for the exchequer. This in a country where in 1773 a traveler had written: "Meat is so abundant that when it is carted in quarters across the plaza, if a quarter happens to slip off, the driver never stops to pick it up . . . and even a poor beggar on the street doesn't bother to take it home with him."[17]

With the economy grinding to a halt and public opposition mounting, the government was forced to lift the wage freeze in April 1954. Now the underlying inflation that the government had tried to hide through its wage freeze became obvious. It was the last straw. In September 1955 Perón was forced from office by the military.

During his reign money in circulation increased at least fivefold. Foreign reserves declined to one-seventh of what they had been. Per capita GNP was only 16 percent higher in 1955 than in 1943. Exports had declined precipitously. After decades of being the premier economy in South America, Argentina had now been passed by Venezuela in per capita income and by Brazil in foreign trade.

Perón, the demagogue who had promised a better life to the workers and peasants, had instead destroyed Argentina economically and destabilized it politically. He had transformed Argentina into a welter of conflicting special interest groups focused solely on appropriating for themselves the largest possible share of the economic pie. Argentine politics had become a matter of courting special interests at the expense of national interests.

Political and Economic Instability

Over the next 21 years Argentina suffered 12 different governments. The longest reign of any government was four years. A couple of governments disappeared within three months. There was no continuity of policies. Economic planning was impossible, for a subsequent governmental decree might destroy any projected benefits. Capital fled the country.

Periodically when the economy was suffering there would be a move toward economic deregulation, but soon such a policy would be jettisoned to favor some special interest. Despite the havoc wreaked by Perón's interventions in the economy, there was still widespread support for socialism, that is, for government control of the economy. In May 1958 a 60 percent wage boost for unions was suddenly decreed along with a general price freeze, an increase in pensions, and a reduction in transit fares. In 1959 there was a devaluation. In 1960 inflation began to skyrocket and devaluations became routine.

The state became known for deficits, inflation, price controls, devaluations, debt renegotiations, favoritism toward nationalized companies, and ludicrous regulations like the freeze on agricultural rents in place since 1943. By the late 1960s an entire generation of Argentines had been raised in an environment in which the primary purpose of government appeared to be to divide the spoils. Government had become just what Voltaire had declared it to be: "A device for taking money out of one set of pockets and putting it into another."[18]

In such an environment it is not surprising that changes in how the spoils were divided became viewed as attacks on constituencies. Beginning in late 1969 Argentines began a long descent into violent attempts to secure control over this division of the spoils.

Perón Returns

In this time of trouble the country turned again to its self-proclaimed savior, Juan Perón, living in Spain. From 1955 on he had remained the most popular Argentine politician and leader of the strongest political party. Despite his shattering of the econ-

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omy, the continuing economic decline ironically caused many to recall his era as a period of prosperity and to give him the credit. He was being judged not on the basis of the economic shambles which his policies led to after he was in office, but rather on the state of the economy he inherited as a result of the policies of his predecessors.

Perón ruled from late 1973 until his death in July 1974. In May 1974 Perón had given his Marxist supporters an ultimatum to subordinate themselves to his control or be expelled. The result was a virtual civil war. By 1976 there was a political murder every five hours and a bomb explosion every three.[19] Thousands of people, the *desaparecidos*, were secretly arrested, incarcerated, tortured, and killed by the military governments of the late 1970s. Now Argentina was not only bankrupt economically but also in terms of social justice. As former President Arturo Frondizi (1958–62) warned in 1974: "[T]here is no investment; where there is no investment there can be no economic development; and where there is no economic development there can be no social justice."[20]

The relative decline of the Argentine economy is virtually unprecedented in modern times. From one of the most free and prosperous countries in the world, Argentina had declined in less than 75 years and in the absence of war to a country periodically ruled by despots whose standard of living had collapsed. As late as 1945 Argentina was still the seventh wealthiest country in the world. In 1984 it ranked between the 60th and 70th. By 1984 more than 60 percent of the economy was state-owned. There was a government monopoly or near-monopoly in oil, natural gas, minerals, telephones, airlines, railways, chemicals, steel, insurance, banking, broadcasting, electricity, *ad nauseam*. In an attempt to avoid the disastrous effects of governmental interference in the economy, the underground economy had grown to such an extent that by some estimates it had become as large as the official economy!

From 1979 to 1986 per capita income declined 16 percent to the level of 1966. In 1914 hourly pay rates in Buenos Aires were 25 percent higher than in Paris and 80 percent higher than in Marseilles. In 1986 they were at the level of Korea. In a country once called the breadbasket of Latin America, 17 percent of Argentines in 1986 were living on the food dole.[21]

Argentina's history of inflation mirrored its economic decline. "Between 1914 and 1929, the U.S. consumer price index rose by 71 percent and that for Canada by 51 percent, while the Argentine increased only by 31 percent."[22] However, during the 1930s Argentine inflation began to outpace inflation in the United States, and by 1949 Argentine prices were rising much faster than in the United States or Western Europe. From 1955 through 1959 the cost of living in Buenos Aires rose by 39 percent annually. By the late 1980s it was not unheard of for 30 percent price increases on everything in a store to be announced over the loudspeakers.

The average annual growth rate of real GDP for Argentina during 1980–88 was negative. Argentina ranked 123rd among 138 countries. Of the 20 poorest countries in the world, only Mozambique had a lower growth rate.[23]

Moving Away from Socialism

In 1989 a new government came to power and under its fourth minister of economy, Domingo Cavallo, began the arduous task of turning a bankrupt, socialistic economy into a capitalistic one, precisely the task facing the new democracies of Eastern Europe and the Commonwealth of Independent States.

To increase economic freedom the economy was deregulated. Regulatory agencies were not merely directed to reduce paperwork or advised that there would be a hiring freeze, they were abolished. Recently the number of abolished regulatory agencies stood at 36. Trade restrictions were lifted, foreign exchange controls eliminated, and restrictions on days and hours of business jettisoned.

To increase economic incentives tax rates were cut. Capital gains tax rates were not

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indexed to inflation or reduced by a token amount, they were eliminated.

To increase competition several steps were taken. All import quotas, except on cars, were abolished. The average tariff was sliced from more than 40 percent to 9 percent. All subsidies to private companies were scrapped.

To decrease economic uncertainty regarding the future, the role of the government in the economy was reduced. Legislation was passed requiring that Argentina's currency be backed by hard currency reserves. Another law made it illegal to institute wage and price controls. State enterprises were privatized, and the federal government's work force was cut by 20 percent.

The results of moving from socialism toward capitalism have been dramatic. In 1991 and 1992 the formerly bankrupt government ran a surplus. Inflation has fallen dramatically to a 20-year low. In 1990 the annual inflation rate peaked above 20,000 percent; today it is under 20 percent. The economy grew 5 percent in 1991, a rate higher than that achieved by the United States, and 6 percent in 1992. Argentina has renewed foreign-debt payments, the Argentine stock market has soared, and Argentina just completed its first successful placement of Argentine bonds in the Euromarket. Argentina's foreign debt, which had been trading on the secondary market at 13 percent of its face value, has risen to 45 percent.

Sadly, the history of Argentina provides a paradigm of how socialistic policies can bankrupt a society. As Domingo Cavallo has said: "For fifty years [Argentina] had politicians worried about how to take from John to give to Peter, rather than thinking of the future, of the sons of Peter and John . . . ."[24] Fortunately, Argentina is now on the way to providing another paradigm, that of how to convert a bankrupt, socialistic economy into a thriving capitalistic one. If these free-market policies are continued and expanded, then the prospects for Argentina's future may be as bright today as they seemed nearly 100 years ago. □

1. John A. Crow, *The Epic of Latin America* (Berkeley, Calif.: University of California Press, 1980), p. 372.
2. Crow, p. 378.
3. Crow, pp. 596–7.
4. Carlos F. Díaz Alejandro, *Essays on the Economic History of the Argentine Republic* (New Haven, Conn.: Yale University Press, 1970), pp. 2–3.
5. Just recently I saw for the first time a Washington-based former government official advocate that the United States default on its national debt.
6. Sanford A. Mosk, "Latin America and the World Economy, 1850–1914," in *People and Issues in Latin American History* edited by Lewis Hanke and Jane M. Rausch (New York: Markus Wiener Publishing, Inc., 1990), pp. 88–9.
7. Arthur P. Whitaker, *Argentina* (Englewood Cliffs, N.J.: Prentice Hall, 1964), p. 61.
8. Whitaker, p. 61.
9. Michael G. Mulhall, *Industries and Wealth of Nations* (New York: Longmans, Green and Co., 1896), p. 391.
10. Arturo Cruz, Jr., "Glory Past but Not Forgotten," in *Insight*, August 6, 1990, p. 10.
11. The 1916 election was the first in which all adult males could vote without meeting either a literacy or property qualification. Women were not permitted to vote until 1947.
12. It is fascinating to note that this same counterproductive policy and variants of it are currently being touted as a solution for our trade imbalance with Japan.
13. Díaz Alejandro, p. 284.
14. Argentina did belatedly declare war on the Axis in April of 1945.
15. In the 1980s the United States government created an accounting gimmick, which permitted America's savings and loans to appear to have more capital and obscured the bankruptcy of governmental policy, that would lead to America's most costly financial disaster.
16. Díaz Alejandro, p. 112.
17. Crow, pp. 374–5.
18. Some pockets were bigger than others. When Perón fled in 1955 his personal cellars in Buenos Aires held $25,000,000 in gold. This figure is dwarfed by the billions alleged to have found its way into various pockets during the administrations of Mexico's José López Portillo and Luis Echeverría.
19. Richard Gillespie, *Soldiers of Perón: Argentina's Montoneros* (Oxford: Clarendon Press, 1982), p. 223.
20. Donald C. Hodges, *Argentina, 1943–1987* (Albuquerque, N.M.: University of New Mexico Press, 1988), p. 184.
21. Norman Gall, "The Four Horsemen ride again," in *Forbes*, July 28, 1986, p. 102.
22. Díaz Alejandro, p. 362.
23. *The Economist Book of Vital World Statistics* (New York: Times Books/Random House, 1990), pp. 40–7.
24. Joel Millman, "Who's out of step?" in *Forbes*, January 20, 1992, p. 60.

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THE FREEMAN
IDEAS ON LIBERTY

WILL CONSTITUTION TRUMP REVOLUTION IN EASTERN EUROPE?

by K. L. Billingsley

The movement that saw itself as the wave of the future, and whose leaders threatened to bury the West, is now consigned to the ash dump of history. Communism, the nationalization of human beings, officially died in 1989, some 70 years and countless millions of casualties too late. That year saw the reversal of the domino theory, with the vassal states of the Soviet Empire throwing off their chains and smashing down walls at an astonishing rate.

The democratic revolution was for the most part peaceful and has brought enormous gains in freedom, the only true basis for the future prosperity that the region so desperately needs. But are those revolutionary gains currently being undone by constitutional means? That may well be the case, according to an American who helped draft some of those constitutions. He is a man well suited to the task.

University of Chicago graduate Bernard H. Siegan is Distinguished Professor of Law at the University of San Diego. An expert on the Constitution, he was a member of the National Commission on the Bicentennial of the Constitution. Professor Siegan also served as member of President Reagan's Commission on Housing and as a consultant to the Department of Justice. Known as a strong defender of property rights and free enterprise, Siegan is a former columnist for Freedom Newspapers and author of a number of books including *Land Use Without Zoning* and *Economic Liberties and the Constitution*.

In 1987 Ronald Reagan nominated Siegan for the Ninth Circuit Court of Appeals and the nomination received strong backing across the political spectrum. Supporters included former Chief Justice Warren Burger, Nobel laureates Milton Friedman and James Buchanan, and the liberal author Alan Dershowitz, professor of law at Harvard. But the nomination touched off a furious reaction from the American left, particularly its extreme reaches. The reason for such reaction is not difficult to discern.

Always out of touch with the people, the left has relied on unelected judges to push through its policies by judicial fiat. Activists in these quarters are not fond of judges who interpret the Constitution according to the intent of its authors, and not as a blank check for statist intervention. Professor Siegan does not believe, as does the left, that a court constitutes a robed politburo. He also fails to find mysterious rights hidden in "emanations" and "penumbras."

Bankrolled by Hollywood moguls such as Ted Field, Norman Lear's People for the

K.L. Billingsley is a media fellow of the Pacific Research Institute in San Francisco.

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American Way launched a massive propaganda campaign against Siegan and flooded the land with a slick 39-page document opposing his nomination. The campaign rivaled the vicious slanders against Robert Bork. The radical National Lawyers Guild expressed "vehement opposition" to Siegan's appointment.

Anita Hill and her defenders should consider Siegan's ordeal. For 18 months the powerful Senate Judiciary Committee combed the professor's record trying to find some moral basis on which to dismiss him. All they succeeded in finding was a record of outstanding scholarship, sound legal practice, and moral rectitude. Unfortunately, partisan politics ensured that the nomination did not get out of committee. This disappointment, however, did not prevent the professor from finding other important work. In recent years Mr. Siegan has provided constitutional advice to countries as diverse as Brazil, Armenia, Ukraine, Canada, and Bulgaria.

Reinventing Bulgaria

One of the Eastern Bloc's most loathsome dictators was Bulgaria's Todor Zhivkov, whose regime murdered defectors such as the poet Georgi Markov. After Zhivkov's removal, the new government of Bulgaria asked the United States Chamber of Commerce—not the official State or Commerce Departments, interestingly enough—to help them with the transition to a democratic society. The Chamber then put together a "Bulgarian Economic Growth and Transition Project" that included Professor Siegan.

The professor made several visits to Bulgaria and consulted with people across the political spectrum. On these trips, said Siegan, "I did not meet a single person who was not enthusiastic about privatization." In August 1990 Siegan suggested to Bulgarian prime minister Andrei Lukanov that the American Constitution should be the "major source" for the Bulgarian constitution. Lukanov was initially wary.

While the Bulgarians accepted the separation of powers, they wanted to invest the most power in the legislature so "the people" could rule instead of, as had unfortunately been the case, a political party. Many Bulgarians, Siegan found, viewed judges as glorified clerks and were nervous about them ruling on law. But Siegan pointed out that foreigners would not invest in Bulgaria if the parliament enjoyed the unopposed power to confiscate property. With their country desperately in need of foreign investment, Lukanov and his colleagues then began to find the professor's views more acceptable.

Back at his La Jolla home, Siegan penned a 17-page model constitution providing for a national assembly of one or two houses, a president, and a two-part supreme court, with one part to deal with exclusively constitutional matters. Though indeed based on the U.S. Constitution, the model reinforced guarantees of individual rights, particularly property rights. Siegan purposely made the constitution difficult to amend because "a constitution that can be readily changed is more of a law than a constitution." By its very meaning, the professor argues, "a constitution must be enduring."

"Every person has the right," Siegan's draft said, "to purchase, acquire, rent, own, use, sell, lease, transfer, and inherit private property, or any part or portion thereof." Siegan also showed that he had learned the lessons of the West, as well as those of the East. His model constitution forbade the government to incur "an indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenues provided for such year." When state revenues exceed expenditures, "the surplus shall be used to reduce the amount levied for the subsequent year." Further, the maximum amount of taxes on real property or commercial ventures "shall not exceed one percent of the full market value of such property or venture." Such language would have free-spending American representatives snapping full clips into their Uzis.

Siegan's Model Constitution

Siegan soon found his services much in demand. Representatives from several So-

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viet republics, including Armenia, sought him out through Resistance International. The Burmese Resistance Movement, not yet in power, also made overtures. In cooperation with the Locke Institute and the Institute for Humane Studies, the professor then set to work on "Drafting a Constitution for a Nation or Republic Emerging Into Freedom."

Professor Siegan's suggested model constitution grants citizenship to "all persons permanently residing" within the borders of a nation. It protects peaceful assembly, redress of grievances and guards the freedom of speech, movement, privacy. The rights of life, liberty, and property "include any form of human activity that is not destructive of the rights of life, liberty, and property of others." Persons accused of crime enjoy strong protection, including the presumption of innocence previously lacking all over Eastern Europe. As the late Malcolm Muggeridge put it, the Communists replaced habeas corpus with habeas cadaver.

But as a foreigner all Siegan could do was advise and recommend. The final draft of the actual constitution fell to others. Siegan recommended that the final draft should be submitted for widespread consideration and discussion before approval. This is something that "apparently did not occur," and the final draft contained measures that the professor found alarming.

The Constitution of the Republic of Bulgaria, adopted on July 12, 1991, features what Siegan calls "schizophrenia of language." For example, Article 37 (1) says that "Freedom of conscience, freedom of thought, and choice of religion or religious or atheistic views are inviolable." However, article 37 (2) says that "Freedom of conscience and religion may not be detrimental to national security, public order, public health and morality, or the rights and freedoms of other citizens." Freedom of movement is also subject to restriction, and not just for security purposes. The state can restrict this right for "public health" and the "freedoms of other citizens."

Article 40(1) states that "the Press and other information media are free and not subject to censorship." But Article 40(2) adds that "a printed publication may be suppressed or confiscated only through an act of judicial authorities, when good mores are violated." Exactly what constitutes "good mores" is not specified and it is a subject on which everyone disagrees, particularly politicians. The freedom of movement guaranteed in article 35(1) is subject to restriction "in order to safeguard national security, public health, or the rights and freedoms of other citizens."

Article 17(3) declares private property "inviolable," but there is no guarantee of fair compensation when the state must expropriate. Further, Article 18(1) proclaims the state "sole owner of all underground resources, the coastal beaches, public roadways, waters, forests, and parks of national significance, natural preserves, and archaeological sites." The formulation "underground resources" is a rather sweeping one that surely includes mining, petroleum, drinking water, and possibly even agriculture.

The Bulgarian constitution also provides for a minimum wage, "free obstetrical care, easier working conditions, and other types of social assistance." Citizens have the "right to health insurance . . . and to free medical services." Citizens also have the right "to a healthy and favorable environment, consistent with stipulated standards and regulations." Further, "they have an obligation to protect the environment." As Professor Siegan points out, these "rights" are really not rights at all but entitlements whose implementation may inhibit economic liberties and drive up debt even as they have in America. Exactly how the "obligation" to protect the environment will be legislated and enforced remains to be seen. And any responsible person in public life, in any country, should know that no government service can possibly be "free." The temptation to use misleading and utopian language is apparently irresistible to politicians of all nations.

The Czech Charter

The Czech Republic—recently separated from the more agrarian and socialistically

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inclined Slovakia—has been billed as the Eastern European nation most committed to democracy and free enterprise. Friedrich Hayek and Ludwig von Mises are reportedly the most popular economists. A number of Western companies have located there and Prague is becoming a magnet for Western youth. Professor Siegan provided the Czechs with constitutional guidance, some of which was evidently not followed.

Article 7(1) of the Czech "Charter of Fundamental Rights and Freedoms," adopted January 9, 1991, says that privacy "may be limited only in cases specified by law." The most casual observer will see the potential for mischief in that clause. Article 11(3) says that property "may not be misused to the detriment of the rights of others or against legally protected public interests." The exercise of property "may not cause damage to human health, nature and the environment beyond statutory limits."

The Czech document proclaims the sanctity of the home "inviolable," but Article 12(3) says that sanctity may be violated "if it is essential in a democratic state for protecting the life or health of individuals, for protecting the rights and freedoms of others, or for averting a serious threat to public security and order."

Freedom of expression, according to article 17(4), "may be limited by law in the case of measures essential in a democratic society for protecting the rights and freedoms of others, the security of the State, public security, public health, and morality." The right of assembly "may be limited by law" to protect "public order, health, morality, prosperity or the security of the State."

Freedom of religion, says Article 14(3) "may be limited by the law in the case of measures which are "essential in a democratic society for protection of public security and order, health and morality, or the rights and freedoms of others."

Professor Siegan laments that the Czech protections are "conditional, much more on the order of the communist than of the United States Constitution." Siegan notes that there are similar measures in the proposed constitution of Ukraine, another country he has advised.

Reform in Ukraine

This nation of 52 million boasts the most fertile soil in Europe, if not the world, and could emerge as a powerful force in European affairs. Ukrainian president Leonid Kravchuk has been described as a "not-quite-ex-enough Communist" who has threatened to expel journalists as troublemakers. The parliament remains dominated by Communists and the potentially rich economy still suffers from statist policies. There is, however, a vigorous opposition that is gaining strength. In the first week of October, miners from Donetsk came to Kiev demanding genuine privatization of the economy. The opposition Rukh movement, which supports the miners, also wants new elections and a referendum on a new constitution.

Thus, the timing seemed especially right for Siegan's visit to Ukraine in October of 1992. The professor expounded his constitutional philosophy and reports that his speech was well received. After all his travel and hard work, it is Siegan's hope that Ukraine may avoid the pitfalls of the Bulgarian and Czech constitutions. In those countries the exceptions to the basic rights are so broad, Siegan says, that "the exceptions seem to consume the guarantee." Indeed, the loopholes seem large enough for tanks to drive through, and they may do just that.

Siegan notes that the world has recently seen extraordinary historical events that few had forecast. "Almost simultaneously," he says, "millions of people in many countries shed despotism in favor of freedom" and demolished a system "which smothered their humanity and foreclosed their opportunity for progress and betterment." In the entire history of freedom, Siegan says, "there never has been so great an advance within so brief a period."

That is why the professor believes it would be a "horrible tragedy if governments

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were now established that would return these people to "the oppressions from which they escaped." Without mentioning names, Siegan says that he has observed American advisers who urged new states to adopt measures "that might bring about such a terrible result." In fact, some Czech officials told Siegan that their greatest problem is now "infiltration from the West." Those Eastern Europeans who favor statist measures openly acknowledge influence from France, Germany, and Britain.

The democratic revolution in Eastern Europe, says Siegan, was "against an evil system and not evil rulers." The reforms were "intended to minimize the rule of the state and maximize the freedom of the people." Those who "advocate establishing a huge governmental role in the economies of these nations," says Siegan, "do not comprehend the meaning of what has occurred." Governments "should be powerful enough to protect the people against their foreign and local enemies and domestic perils and excesses," the professor writes. But governments "must never be powerful enough to oppress the people or inhibit their wisdom and productivity."

Based on Siegan's revelations it seems that reports of a laissez-faire paradise emerging in Eastern Europe are greatly exaggerated. The overall quest seems not to build a society based on limited government, individual rights, and free markets but for another version of socialism with a human face—the nanny state without the gulag and Communist party, but with Western pop culture and environmentalism as a kind of civil religion. The preferred model appears to be Sweden, not America, though the differences between these two are not always apparent. Indeed, American politicians seem committed to further encroachments of the state in private life.

Siegan's conclusion thus seems particularly fitting for both Europe and America at this critical time in history: "The great lesson of modern times is the strong relationship between freedom and progress. Maximizing freedom will also maximize a nation's philosophical, cultural, and material resources." □

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May 1993

POOR COUNTRIES

Individual poverty may be no disgrace, but it is always painful and annoying. It may strike when an individual or a family, for any reason, fails to earn an income sufficient to purchase the essentials of food, clothing, housing, and fuel. The penalties of poverty are grave and numerous, such as weakness and illness, lack of training and education and few opportunities for economic improvements.

Collective poverty indicates a widespread prevalence of economic misery in a country. It is strikingly evident not only in the dismal levels of living but also in the life expectancy of the population. In the most prosperous countries of the world, such as Switzerland, Japan, and the United States, per capita production now exceeds $20,000 per year and the life expectancy at birth is more than 76 years. In the poor countries of the world, such as Ethiopia, Somalia, and Bangladesh, per capita production amounts to barely $200 per year and the life expectancy may be less than fifty years. If the average output per person is less than $200, the average income is likely to be $150 or less, and the poorest of the poor may linger on $100 or less. And, if the average life expectancy is barely fifty years, the poorest of the poor can expect forty years or less. Indeed, much of the world's population lives in misery and dies in despair.

Increasing the productivity of an underdeveloped country is always difficult but never impossible. In Ethiopia, Somalia, Bangladesh, and other such countries, the conditions for development are extraordinarily difficult because they differ so radically from present conditions. *The thoughts, values, and mores of the people must change so that they may change the world around them.* The dogmas of the past must be abandoned so that there can be new thought and action for income and wealth. In short, the old order must change and yield place to a new.

Surely, only the wise are receptive to new mental conceptions. But even to them, new ideas are always painful and slow to advance especially if they confront habit and tradition, mores and religion. If Muhammad, the Prophet of Islam, prohibits all forms of interest taking, it is difficult for a devout Muslim to tolerate banking and all other manifestations of the capital market. It is even more difficult to imagine economic development in Muslim countries without capital markets. If Buddha, the founder of another great Asian religion, beseeches his followers to aspire to perfect sainthood through liberation and purification

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from all desires, it is well-nigh impossible for all pious Buddhists to aspire to greater want satisfaction. If the Buddhist monk must not demean himself receiving money, it is difficult for lay Buddhists throughout Asia to seek and reap monetary rewards.

It is difficult to advance economically if for any reason a society espouses and clings to notions of common ownership in the means of production. If the people are convinced that property is theft, it is hard to create and keep property. And it is unlikely that people will strive to improve their economic condition if they cannot own the means of production needed to improve their condition.

A society is destined to be poor if the voices of education tirelessly denounce and slander the private-property order commonly called "capitalism." They may indict it for being heartless, merciless, cruel, inhuman, selfish, and exploitative. The textbooks of economics may set the tone, summarily rejecting capitalism, because the strong are said to prey on the weak, employers are believed to exploit their workers, and businessmen allegedly gouge their customers.

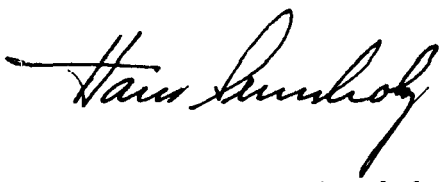
Actually, the private-property order rests squarely on truthfulness, reliability, and voluntary cooperation among all groups and classes of society. In freedom, it is rather difficult to cheat, shortchange, or short-weight another person. If customers and businessmen are free to choose, they are free to shun fraud and deception. Goods and services must be satisfactory and priced right or they cannot be sold. A businessman who deceives his customers will lose them. If he mistreats his suppliers, they refuse to sell. If he abuses his workers, they will leave him. It is in everyone's interest to be peaceful, honest, truthful, and cooperative.

Economic poverty and misery flow from a code of morality that is hostile to economic production. There can be no prosperity where theft and plunder are commonplace, where private property is confiscated, expropriated, seized, blocked, or taxed away by political authority. Where people interact with force and violence, poverty is bound to be widespread.

A society which is driven by envy and covetousness is bound to be a poor society. The apparatus of government may be used to redistribute income and wealth according to the dictates of the envious. Industrious people may be forced to bear the expenses of numerous transfer programs and to face the costs of vice and crime, for envy and covetousness are the fertile soil in which vice and crime do grow and prosper.

Yet, these costs may be rather modest when compared with the hidden costs of fear. Bodily violence and property loss, or merely the fear thereof, do not invite investments nor encourage economic activity. In fact, even in developed countries, fear has turned many inner cities into economic wastelands, and many productive communities into islands of depression and poverty.

Moral, social, and economic ideas that guide human action are the key to human well-being. They make all the difference between wealth and poverty.



Hans F. Sennholz

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THE FREEMAN
IDEAS ON LIBERTY

VIETNAM: A FATE OF ITS OWN

by James R. Bauknecht

"Lonely, distraught,
Kieu viewed the way ahead with fear and doubt.
A storm-tossed rose . . . such
was her future, all she'd ever be."
The Tale of Kieu, Nguyen Du[1]

Before we left for Vietnam in June of 1992, a Vietnamese friend from California (a Viet Kieu, or Vietnamese expatriate) told us to expect to find a country of people who were barbarians, thieves, or despairing idealists. "Trust no one," she instructed. "And I really mean it," she blurted out with an uncompromising wince. Unsettled by the apparent harshness of her comment, we interpreted her views as the excesses of an embittered expatriate. Undaunted, my wife, my daughter, and I set out to discover the land from which my wife, a Vietnamese refugee, had fled 17 years earlier. To our dismay, though we certainly did not encounter barbarians in Vietnam, we soon found ourselves unprepared for the disillusionments, the lies, and petty frauds perpetrated by many Vietnamese who live picaresque lives out of the sheer necessity to survive.

Our lesson about life in Vietnam was not long in coming. On the third day of our visit to Vietnam, we arrived in Vung Tau, a resort city on the southeast coast. Having rented a room at a government-owned hotel that boasted a pool and other modern conveniences, we discovered, to our mortification, that the pool contained slime that made it useless and dangerous, that our bathroom shower did not work, that two panes were missing from our room's windows, and that the warped bathroom door not only would not shut, but had no knob either. Believing the hotel management had made an error in assigning us a room, we talked to other tenants, only to discover that most of the rooms of this year-old hotel, were, in full view of management, equally in disrepair. This and many other similar experiences began to suggest the structure of the society into which we had plunged.

Indeed, the harshness and distrust that characterize Vietnamese society today owe to three principal causes: a devastated economy that has produced a vicious and ubiquitous poverty, a corrupt and oppressive Communist government, and an ancient and equally oppressive class system.

Though poverty is not the most fundamental problem in Vietnam, it is the most visible. Never a wealthy country, Vietnam

James Bauknecht has been a Fulbright exchange lecturer at Bury College in Manchester, England, and currently teaches English and world literature at a community college in Wisconsin.

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today is, by any standards, impoverished. GNP/per capita in 1990, the latest reported year, fell to $230 (compared to $21,800 for the U.S. in the same year).[2] Most laborers work for less than $20 per month, and beggars and crime abound. The infrastructure has deteriorated consistently since 1975; most buildings, public works, and manufacturing equipment have fallen into decay. Cars are few, while Honda motorbikes, inexpensive Chinese bicycles, and tri-shaws constitute the bulk of the traffic. Sanitation and health care are woefully inadequate, and the booming population outstrips the country's efforts to feed and clothe itself adequately. With an area of 127,000 square miles, only 80 percent the size of California, Vietnam today holds 69 million people (20 million more than in 1975), and the country maintains its traditional population growth rate which, if unabated, will result in a doubling of today's population within 31 years.[3]

Large parts of Ho Chi Minh City, the renowned "pearl of the Orient" under its former name of Saigon, are mass slums, where millions of unemployed or marginally employed people live in hovels at night and loiter on the streets during the day. Overflowing with six million residents (compared to 3.5 million in 1975), Ho Chi Minh City gives the impression of a maze of dingy alleys and crowded hovels.[4] Despite these bleak circumstances, we found the intelligence, the ingenuity, and the dedication to hard work of the Vietnamese people everywhere evident. Though living at subsistence level, Vietnamese impressed us by the ingeniousness with which they earn a meal or a few *piasters*. A scale (albeit a marginally accurate one) earned its owner, who weighed pedestrians at the city zoo, about 30 cents a day. In like fashion, families worked long hours making and selling bamboo brooms and mats. However admirable, such initiatives cannot undo the deprivation of years spent under a dysfunctional Marxist economy that, with the U.S. trade embargo and the recent loss of the yearly two billion dollars of Soviet aid, has teetered on collapse.

Winning the War, Losing the Peace

The Communists in Vietnam won the war, but they lost the peace. Their revolution, though a clear military success, changed very little the way in which Vietnamese relate to each other. In fact, the Communists replaced a semi-feudal ruling class with a less educated and even more oppressive class of party bureaucrats, politicians, and military rulers. Privilege, bribery, intimidation, and personal favors remain the primary mechanisms of political power and economic advantage.

In Ho Chi Minh City we visited the home of a relative, only to find that he no longer lived there. After we had located our relative, he told us, with a tone that vacillated between resignation and thinly veiled hatred, that he had been forced to exchange homes with a party cadre. He had left his middle-class home for a cadre's hovel without even a word of complaint. For like the masses of Vietnamese who have no meaningful mechanism by which they can assert political power, this elderly gentleman knew that protest would have landed him in jail. He sighed that his fate, like the fate of Kieu, the literary heroine, was to suffer injustice with a stoic forbearance.

Vietnam is not now, nor was it under the republic, a society in which the rule of law is supreme. Local officials, like some of their republican predecessors, flagrantly contrive legal problems and even make arrests in order to secure bribes with which they support themselves. In what is tantamount to a government-run protection racket, hotels are routinely raided in the dead of night, and cars arbitrarily stopped and searched, in order to coerce their owners into bribing the police. In the former French resort city of Da Lat, for example, our car was stopped twice by policemen for no apparent reason. On both occasions, the Vietnamese driver (whom we had to hire because foreigners are prohibited from driving) was pulled aside and asked who his passengers were. Lying, he declared that we were French, then paid the $3 bribe demanded by the police. Later he told us that had he disclosed that we were

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American, the cost would have been $10 each time.

The Tyranny of the Marxist Elite

Marxist rule in Vietnam will leave a political legacy of concentration camps, policies that forced people into near starvation in the so-called "economic zones," and other acts of domination by humiliation that constituted the coin of the realm. Over a "333" beer or a meal, most people in Vietnam have a tale of oppression to tell. In Ho Chi Minh City we met a Mr. Thuy and his family of six who, many years earlier, had been forced into the countryside to help develop new economic zones in uncleared jungles and rugged mountains.[5] Thuy's family, like many others, were left on their own (often without sufficient tools and supplies) to establish new agricultural areas and communities. Unable to grow sufficient food under these primitive conditions, they often subsisted at the brink of starvation. Years later, covertly returning to Ho Chi Minh City under the darkness of night, the family found refuge on the grounds of a pagoda, where they lived in a thatched shack 100 square feet in area. Since they were illegally living in the capital, they were not issued ration cards that would have allowed them to buy food and clothing, nor were Thuy and his wife able to find legal employment. They survived only because of the generosity of a Buddhist monk, and even today they live without furniture, save one old set of bed springs and two chairs.

Beginning in 1987, the Marxist elite, perhaps sensing both that socialism around the world was on the wane and that its own power would eventually be challenged, adroitly sought to remain in power by granting a limited capitalism which, once profitable, would provide, they hoped, the wealth upon which they themselves could live. Today, the Marxist elite, by means of military and political threats and intimidation, control the incipient wealth the new capitalism produces. No business can be conducted without the entrepreneur having to bribe the secret police. No government service can be had without the probability that the government worker will demand a bribe. Examples of this type of conduct abound. When we mailed a package from Ho Chi Minh City to Hanoi, we had to pay the clerks at the main post office $5 so that they would not loot the contents. They provided us the next day with a receipt that listed the mailing price at 51,000 *piasters* ($4) below the actual price we were forced to pay. Presumably, they pocketed the difference.

In Da Lat in the central highlands, we sought out several hotels that Vietnamese friends had recommended to us. To our surprise, the proprietors of these hotels were forbidden to rent to foreigners, and we were directed to stay at much more expensive ($36 a day), though lesser quality, government-owned establishments. Nonetheless, after much searching, we located a hotel that was privately owned, but which had informal government connections that allowed it to rent to foreigners at a cost midway ($12 a day) between the official government rate and the much lower private sector rate ($3 a day).

We found amazing the extent to which corrupt officials would go to maintain the pretense of respectability. Even though they implicitly demand bribes, they expect the bribe to be offered with subtlety, if not civility. The Vietnamese cultural expectation is that all parties to a bribe tacitly agree to maintain the fiction of propriety. We witnessed first hand how customs officials at Tan Son Nhut airport in Ho Chi Minh City were caught unaware when an Englishman, arriving on the same flight as we did, indignantly and loudly protested at being asked for a bribe. He threatened to march back into the plane, and as officials were confiscating our family's VHS video tapes (we, too, refused to pay the bribe), he was asked to enter an interview room to continue the argument. In our thoughts, we wished him well.

A Rigid Hierarchy Prevails

Vietnam has always been a society of fairly rigid classes that are perpetuated

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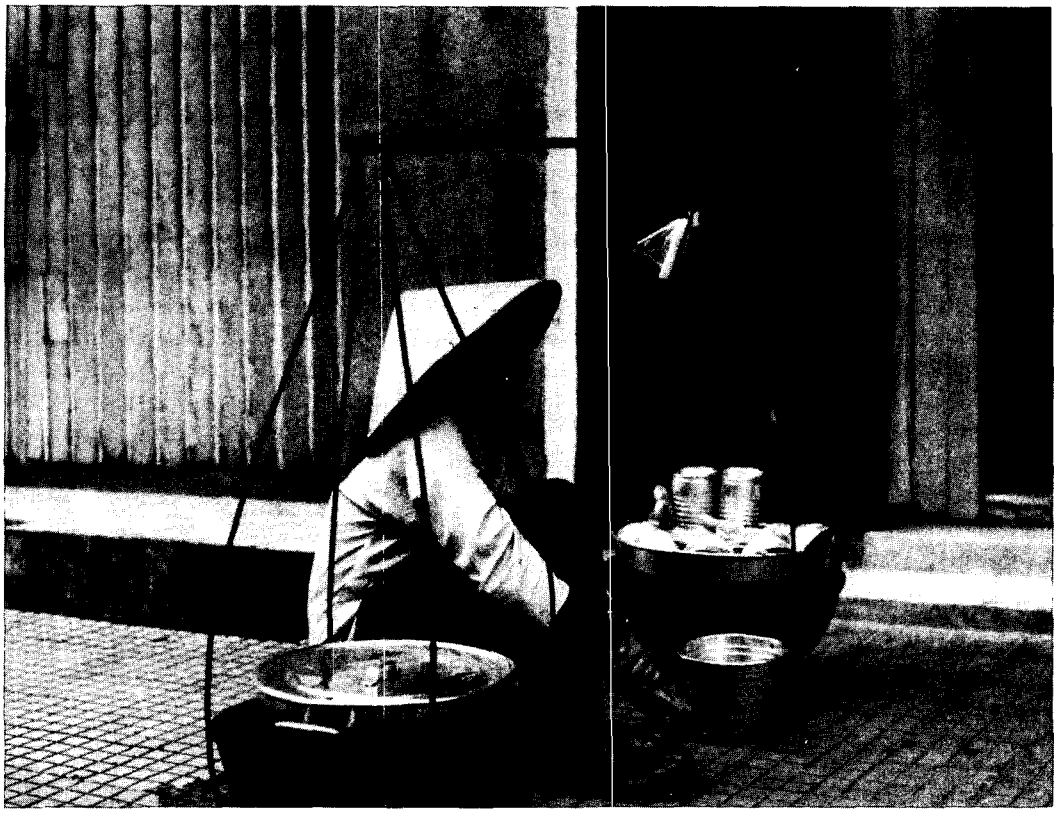

A food vendor in a Ho Chi Minh City market. Living at subsistence level, Vietnamese show an ingeniousness and hard work with which they earn a few piasters.

mainly by inheritance. Of the four traditional classes, the mandarins and scholars, the elite class, have held authority over the farmers, the artisans, and the merchants.[6] Students born of the masses who were successful in civil service exams could advance to the scholarly class, but such mobility was rare, and people, generation after generation, almost universally remained in the class of their ancestors. These class distinctions, while not constituting a caste system, designate more than simply a hierarchy of economic divisions. A Vietnamese woman, a former maid in Vietnam who now resides in the United States, told me that in America a maid holds a low-paying, unskilled, and thankless job, but can hope to better herself. In Vietnam, she complained bitterly, society marks a maid as an inherently inferior person, and she can expect only a life of drudgery, twelve-hour work days, and severely limited social mobility.

Today, the Communists have replaced one elite with another, but this same notion of hierarchy by family background, though now a matter of ideological commitment, still remains. As the new elite, Communist officials and their families occupy the best homes and have priority in acquiring education and good jobs. Communism, in broad outlines, became a mirror of the society it sought to topple.

The final impression we gathered as we traveled the breadth and width of Vietnam is that of a land of immense physical beauty and resources whose common people, by sharp contrast, face a brutality of everyday life. The concrete ills of hunger, disease, and despair weigh down a people of inherent resilience, ingenuity, and dedication to family. Ironically, the people of Vietnam find themselves in an economic and political no man's land. Since the Communist government in 1987 stopped meeting its responsibilities to provide universal higher education and health care—which subsequently

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became the duty of each individual—the citizens of Vietnam have had to fend for themselves in a society that offers none of the alleged benefits of socialism nor the economic and political freedom of the western democracies.

The poorest and most helpless citizens suffer the most. The most daunting image we retain from our travels is that of the many double or triple amputees found throughout Vietnam. The most fortunate have a family capable of supporting them, while the rest are forced to beg. Cup in hand and unable to walk, Minh, the double amputee outside our hotel in Ho Chi Minh City, strove daily to pull himself—with his arms alone—up and down the block. He had no shirt, and his skin, no match for the cement of the street, showed the chafing and scars of years of begging.

Our Vietnamese friend's statement contains some truth; Vietnam is a society of distrust, the social and political origins of which are painfully clear. In a land of bribery, oppression, and mass poverty, few Vietnamese trust others outside their immediate family, even in trivial matters. But what the future holds for Vietnam depends upon the willingness of this culture to free the vast majority of its people to realize their potentials and desires. Many intellectuals and businessmen in Vietnam expect the Communist government to collapse within three years, though it still holds a tight fist on the country. The old class system, in turn, as well as the historic disregard for the rule of law apart from privilege, will need to be modified or discarded if the Vietnamese, no longer a rose tossed by the storms of war and foreign domination, are to defy the perception of an unyielding, bitter fate and, thereby, to flower in the modern world. □

1. *The Tale of Kieu*, Nguyen Du. Translated by Huynh Sanh Thong (New York: Vintage Books, 1973).
2. *The World Almanac and Book of Facts*, 1993 (New York: World Almanac Publishing, 1992), pp. 811–813.
3. *Population Reports Supplement* (Baltimore: The Johns Hopkins University, 1992).
4. The population figure for 1975 is from *Collier's Encyclopedia*, Volume 23 (New York: Macmillan Publishing Co., 1987), p. 133.
5. Mr. Thuy is a pseudonym employed to protect the family's identity.
6. "Students and Girls in Vietnam seen Through Popular Songs," Le Hung Chuong. Published in *We, the Vietnamese*, edited by François Sully (New York: Praeger Publishers, 1971).

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THE FREEMAN
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BEANS, BOMBS, AND BUREAUCRATS

by James M. McCaffery

While traveling north from Quito, Ecuador, to the city of Tulcán on the Ecuadorian-Colombian border last summer, our jeep was stopped four times at road blocks where armed police checked us over. Impressed by such diligence, I commented to the driver, a lawyer who had invited me on this trip, that these searches must be a great help in stopping the smuggling of illegal guns, drugs, and explosives. He agreed, but said that the police were really looking for contraband. Surprised that I did not understand what "contraband" was, he explained: "You know, the usual: beans, rice, flour, cooking oil, and heating fuel." He added: "If they catch you with a sack of beans, you get thrown in jail and they confiscate your vehicle."

Therein lies the tale of how much of the poverty and hunger in the world today is a man-made phenomenon, a product of man's ideas rather than an act of God. German philosophy, the old saw goes, has done much more damage to the Russian people than the German army ever did.

The sad tale of how beans and heating oil became contraband is simple and all too common, although springing from different rationales. As for illicit beans, the politicians were following the common Third World custom of robbing farmers by imposing price and export controls on food in a vain attempt to provide cheap and plentiful food to the politically powerful urban masses, including the bureaucrats themselves, who constantly increase the harshness of their methods in the face of obvious failure. This is contrasted with the equally silly and pernicious pattern of "advanced" countries such as Japan, France, and the United States, where politicians rob the urban workers by imposing bureaucratic controls to increase food prices to "protect" farmers from the realities of the market.

Thus, the Ecuadorian government, whose motto is, ironically, "Ecuador Exports," has forbidden the export of such staples as beans (in which production the country seems to have an obvious comparative advantage) to other countries, especially to Colombia, where such products fetch a much higher price on the free market, in the hope that such restrictions will lower the price in Ecuador and help enforce price controls. The consequences are exactly the opposite, since limiting the market for beans and controlling prices signal the farmers of Ecuador that they should reduce their production. Ecuador's comparative advantage is abolished by fiat, and economy of scale and the free market are no longer a factor in production. Previously law-abiding farmers and middlemen expend a great deal of time and effort smuggling their products across the border, thus becoming criminals in the eyes of their government and in the eyes of their countrymen who resent "their" beans

James M. McCaffery lives in New Orleans and his children attend French-language school.

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being sold to foreigners. An unmentioned consequence of such stupidity is its contribution to the production of drugs. Peasant farmers who are constantly accused of being criminals for wanting to sell their produce at fair market price at home and abroad can hardly be blamed for ignoring similar charges for growing marijuana and coca.

Another irony is the praise given by the politicians to the rapidly expanding flower export industry, since many of those involved in the industry entered the business because it is not regulated by the government. While producing flowers for export is an honorable trade, many of those in the floral business would have remained in food production in a free market. Thus, the politician who brags about controlling prices may have changed the sack of beans that the free market would have produced into a corsage in Tokyo.

The second type of contraband is that of products subsidized by the government. Heating oil used in stoves is a prime example. The Ecuadorian government sells such fuel at about four cents a gallon to the poor, well below the production and distribution costs, while the free market price in Colombia is about twenty times higher. Again, the result is predictable. Up to a third of this oil is directly exported illegally with great profit for all but the poor. Yet many of the poor who do get to buy the cheap oil (often after waiting many hours in line) also act rationally. Rather than using this fuel to cook their food, they sell it at a profit to middlemen who export it. Thus, in a serpentine, byzantine irony, the poor do benefit in some small way as cooking fuel becomes selling fuel. However, the government's loss on such transactions aggravates the nation's raging inflation as the state must print money promiscuously to pay for this extravagance, an inflation that bears down on the poor disproportionately.

On the Beach, a Free Market Thrives

Remarkably, while vacationing on the Pacific coast of Ecuador, I found a classic example of how ordinary people under a free market make decisions which lead to gain for all concerned. While we were living on the coast, my only job was to walk down to the beach early every morning to await the arrival of the local fishermen with the night's catch to be purchased for our lunch and dinner. We buyers were a mixed lot: cooks from the restaurants that dot the beach, housewives, Ecuadorian tourists, along with a gringo or two, and a few local fish jobbers. Most of the fish were sold right there on the beach in a relatively short time at a price that all found acceptable after a little good-natured haggling. Everyone's admonition to the fishermen not to cheat the gringo seemed unnecessary. A foreigner with a little extra money might keep the market price up.

I also noticed that each boat, no matter how small, had an ice chest which remained closed until a man on a motorbike with a larger ice chest on the rear seat arrived on the beach. This was the shrimp monger who came to buy the "selling shrimp," those huge prawns that are so prized in the Orient. The fishermen used to eat these themselves or use them as bait until the buyer on the bike started passing by every morning paying about 70 cents per prawn, an incredible sum for these poor men. Just a few of these prawns would make a night's fishing worthwhile. The men readily agreed they were very fortunate indeed that the Japanese palate craves prawns and that the Japanese budget allows their taste buds to be indulged.

Of course, all of this was made possible by the man on the bike. He had been an ordinary fish jobber until he realized that there was a good market for fresh prawns at the airport in Esmeraldas up the coast. So he put an ice chest on his motorbike and began traveling up and down a five-mile stretch of beach every morning buying large fresh prawns as the boats came back to shore. And, of course, once the fishermen realized that they had a reliable buyer who would pay a good price for the prawns, they began taking ice chests to sea to protect and preserve these valuable goods.

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The buyer on the bike told me that he rushed to the market at Esmeraldas as soon as he finished his route, making more trips as needed if the fishermen had a particularly good night. He sold the prawns with a 30 percent or so markup to willing buyers who immediately flew them to the Orient. This resulted in a gain for all, the natural result of a free market.

In this picturesque scene another loss of wealth due to political meddling in the economy is not obvious. All of the fishing boats on the beach in question were sailboats and rowboats, perhaps not as efficient as motorboats. The fishermen agreed that they would do much better with motors, but there were problems beyond their control that precluded adding power. The main problem was getting fuel since this was a governmental monopoly. There were no conveniently located (and privately owned) gas stations on every corner and open all hours as there are in the United States. The governmental monopoly meant that the men would have to travel to the nearest gas station hoping that fuel would be available (often it was not). Thus, motorizing would make them dependent on a government that had proven itself incompetent in almost everything it touched. Oars and sails made them free; motors would enslave them.

However, there is a looming threat to these free men and their families. First, a little background information is needed. As far as I can tell from a rather superficial study of the problem, the discovery of oil has been a curse to the people of Ecuador, especially since the nation became part of the oil cartel OPEC. Rather than husband and invest the windfall from the oil boom, Ecuador's politicians went on a spending frenzy by borrowing a huge amount of money immediately, using future oil revenues as collateral. The money, squandered on socialist schemes, has vanished. A huge debt and raging inflation remain. They, like the widespread hunger and poverty, are the effects of human action. Ecuador continues to suffer from an excess of civil government and a shortage of self-government.

Until recently the main job of this bureaucracy was to forbid the export of bananas unless the buyers were willing to pay more than the market price (to protect the growers who were content to sell at market price). Needless to say, mounds of bananas rotting on the docks eventually brought the bureaucrats back to reality after great suffering to the workers and growers.

The problem came to a head recently when the entire industry was threatened by a devastating fungus that would quickly destroy the nation's total crop if immediate action were not taken. However, the bureaucracy announced that it would take at least a year to reach a decision in this matter. It took a Presidential decree to save the industry, much to the chagrin of the banana bureaucrats—who saw their power being eroded.

Given this background, I told the fishermen that I was surprised to read that some fishermen were demanding a government ministry to regulate their industry and market fish. The uneducated, probably illiterate, men laughed and said that this was obviously a ploy by the politicians in the capital to provide more political sinecures. An old man asked if anyone thought that any government employee would come down the beach every morning buying prawns at a good price. Nobody did. The consensus was that the government would make them take their catch, especially the prawns, to a government market in the city, where they would get little money and lots of patriotic speeches. These rude men knew more about socialism than most economists. Those who profess to help the poor people should begin by speaking with them. They have a lot to say. But governments that purport to speak for the people rarely speak to the people. □

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THE FREEMAN
IDEAS ON LIBERTY

OPERATION SMILE

by D.K. Brainard

Eugenia Pop bursts into tears as the men lead her daughter away. But while there is fear in her eyes, Eugenia's tears are tears of hope. Twelve-year-old Carmen is about to undergo reconstructive facial surgery at the hands of a visiting team of American surgeons at Budimex Hospital in Bucharest, Romania.

For the doctors of Operation Smile International, a group that has been taking its medical expertise to children around the globe since 1982, the three-hour operation to repair Carmen's face will be routine. But for Carmen and her mother, Operation Smile is an answer to prayer after a decade of seeking treatment under Romania's centralized health care system.

Carmen Pop was only 11 months old when a rare disease attacked the right side of her face and left an ugly hole in her nose and upper lip. After two operations at the age of 3 were less than successful, she was dismissed as untreatable by doctors in the small border city of Arad where she was born.

For the next decade, Eugenia and her husband Vasile exhausted all of their resources trying to find someone who could help their daughter. They tried petitioning the government; Carmen was placed on a priority list at the Health Ministry in Bucharest, but the years passed and nothing more was done.

In 1989, a church medical group in Arad raised enough money to send Carmen to a hospital in Germany where she could be treated by expert plastic surgeons. But the Romanian government refused to grant the Pops a temporary travel visa.

Then, soon after the December 1989 revolution that swept strongman dictator Nicolae Ceausescu from power, a visiting American physician stumbled across Carmen and referred her to a doctor in Bucharest. The field director for an American humanitarian organization, Dr. Solbritt Murphy was instrumental in securing permission for Operation Smile to set up shop at Budimex, where they would spend ten days performing free surgery on deformed children.

"All these years we had hope in God that Carmen could get treatment in a Western country," Eugenia says through her tears. "We hope that God has finally looked upon us."

Unlike many other Romanian children whose only hope for a cure lies in the hands of foreign volunteers, Carmen Pop's ordeal is uncommon because it will have a happy ending. Three years after the bloody Christmas revolution that promised an end to the totalitarian era, Romania's national health care system still teeters on the brink of total collapse. As AIDS and other epidemics ravage the nation's young, Romanian physicians have their hands tied by a lack of manpower and supplies.

When Nicolae Ceausescu seized power in 1978, Romania could boast about 1,000 trained surgeons. But by 1990, "they had 500 trained surgeons left for a population of 23 million," says Dr. Murphy. "He discontinued training for virtually all human services." Bucharest's sole nursing school graduates 400 nurses each year, while one prominent pediatric surgeon estimates that

D.K. Brainard is a student at Hillsdale College in Hillsdale, Michigan.

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hospitals in Romania have a collective shortage of 7,000 nurses.

The list of essential supplies that Romanian doctors do without is seemingly endless—from modern technology like X-ray machines and anesthesia monitors to simple items like surgical gloves, compresses, and hypodermic needles.

The Health Ministry's Paralyzing Grip

While American politicians from both parties clamor for a federally regulated national health care system in the United States, it is worth noting that Romanian physicians blame much of the malaise that grips the medical profession in their country on 50 years of Communist central planning.

Romania is obviously an extreme example of the ills of socialized medicine; the demise of the Romanian health care system was greatly exacerbated by the bizarre totalitarian policies of the Ceausescu regime. But a look at just how bad things have become there should be enough to remind us that any move away from a free market approach and toward a centralized system will prove detrimental to the quality of medical care available to the consumer.

For the first time in a half century, Romanian doctors enjoy the freedom to speak without fear about the counterproductive and often destructive nature of the system they have labored under for so long. Their observations are frank, angry, and urgent, propelled by the frustration of years of enforced silence.

Dr. Nicolae Dirina, director of Budimex Hospital, is playing host to Operation Smile while the team is in Bucharest. Dirina pulls no punches when discussing his country's predicament.

"The Health Ministry still organizes everything," says Dirina. "We don't need different employers from the Ministry of Health to tell us what to do."

Dirina says that since the revolution, he has often been offered special deals from Western medical supply companies eager to do business in Romania. "They say if we will buy something—anything—from them at a reduced rate, they will give us presents, machines, and other things we desperately need," he says.

But the budget for his hospital is administered by the Health Ministry and Dirina says he doesn't know how much, if any, money he will receive each week. "It's not enough to buy even needles," he says sadly.

Romanian doctors blame epidemic levels of AIDS and other diseases, especially among the young, on the fact that doctors are often forced to re-use dirty syringes. "In your country you use it once and throw it away," says Dirina heatedly. "We sterilize it and use it again and again and again."

Budimex Hospital squats along a dirty street on the north side of Bucharest, sandwiched between rows of crumbling tenements that stretch nearly half a mile in either direction. Despite the squalor of its surroundings, Budimex is the largest and most respected pediatric hospital in Romania and is the leading center for surgical training in the country.

"Things are worse in all other hospitals in Romania," says Dirina.

Mike Erricos, an orthopedic surgeon at Cornell University's North Shore Orthopedic Hospital, is on his first Operation Smile mission. Erricos is appalled at the conditions under which the Romanian doctors are forced to operate. The Romanian government "eliminated all knowledge in 1978," he says. "They consciously put themselves back in the Stone Age."

Dirina's Romanian protégé, Dr. Sebastian Ionescu, says it is inevitable that the quality of medical care will decline under a system which offers no incentive for good performance and requires doctors and nurses to work for low pay (doctors earn about US$30 per month, about the same as the average government employee) in primitive conditions, their hands bound firmly with red tape.

In fact, Dirina says, every facet of a doctor's professional life is controlled by the Health Ministry. Doctors are often not allowed to choose the field in which they wish to specialize and managers are forced to work with whomever they are sent by the govern-

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ment, rather than being allowed to recruit and train outstanding young physicians.

As a result, many doctors still practice medicine the same way they did a half-century ago, unmotivated to sharpen their skills and unreceptive to surgical advances and innovative practices, Ionescu says.

Erricos stumbled across the fruits of this kind of thinking when he noticed that many young children in Romania are afflicted with a peculiar deformity that causes their knees to stick permanently in the wrong position. After doing some investigating, he discovered that many Romanian physicians treat malnourished infants by injecting their thighs with massive vitamin doses.

Since the children's legs are not developed enough to support the injections, the shots often cause irreversible nerve damage, crippling the children for life.

"These kids are malnourished," says Erricos. "The Romanians seem to think malnutrition is a disease and they try to treat it with vitamins. I am knocked over by the number of cases I am seeing.

"This is not malicious. This is ignorance."

Dirina says doctors administer the injections because they cannot afford to buy oral or intravenous drugs. "We were obliged to administer these drugs intramuscularly and this problem will continue until we have those [alternative] drugs," he says.

But Ionescu says that even when modern treatments do become available, doctors often will not use them because they are too proud or lazy to change their ways. "I can tell you if I am honest that things are continuing the same way in this hospital," he says, shrugging his shoulders. "So [the children] will be handicapped."

Exporting the American Dream

Contrasting the attitude of resignation shared by these Romanian doctors with the energy and optimism of Operation Smile founder William Magee throws into relief the ideological differences between the free market system and socialized medicine. While the Romanians have spent their careers fighting past barriers erected by their own government, Magee has enjoyed the freedom and the means to spend the last decade bringing miracles to children like Carmen Pop. In essence, exporting the American Dream.

The seed that would blossom into Operation Smile was sown back in 1981 on a commercial airliner somewhere between the Philippines and Norfolk, Virginia, where Magee operates a successful practice as a plastic surgeon.

Magee and his wife Kathy, a clinical nurse, had been invited to the Philippines by a friend for a week of surgery on children with cleft lips and palates. The family accepted the invitation, unsure of what to expect from the trip. What they found was a ragged army of children with facial deformities thronging the team's base hospital, hoping for a chance to be seen by the American doctors.

When the week was up, Bill Magee recalls, he and his friends had operated on more than 100 children. Yet they had to turn 200 more away. Touched by the incredible need and openness of the Filipinos they met, the Magees decided on the airplane home that one trip was not enough; like General MacArthur, they vowed to return and help those they were forced to leave behind. In the next two years, the family flew back to the islands twice, each time asking friends and friends of friends to come along and help.

In 1982, the Magees officially christened their work Operation Smile International (OSI) symbolizing the sunshine their efforts brought to the faces of the deformed children they treated. Since then, more than 1,200 doctors and health care professionals have joined the Magees as OSI volunteers, treating more than 4,000 children in countries as diverse and far afield as China, Liberia, Colombia, and Vietnam.

In effect, Operation Smile represents the surplus of the American system. While the organization occasionally receives government grants, it gathers most of its $2 million annual operating budget from individual and corporate contributors. (According to OSI documentation, government contributions accounted for five percent of the fiscal 1990

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budget and zero percent of the fiscal 1991 budget.)

In addition, each OSI volunteer is required to help pay for his or her trip and to help collect supplies that will be used on the expedition. And the giving of these volunteers is not limited to the occasional relief trip. In 1991, OSI doctors treated more than 2,900 American children for free.

Dr. Frank Yeiser, a veteran of six Operation Smile missions and a longtime friend of the Magees, sums up the attitude that has made the organization so successful. "If you tell me it can't be done, that's the wrong answer," he says.

The can-do attitude of the American doctors quickly becomes apparent at Budimex. Team co-leaders Yeiser and Dr. Thomas Lawrence had planned to devote the bulk of their time to surgery on children culled from the infamous state orphanage system. But because of bureaucratic bungling, only about half the expected number of orphans has arrived at a pre-surgery screening session.

The American team reacts quickly, sending word through the hospital and a network of American and French relief workers that they have room for more children. Volunteers are sent into outlying villages to search for potential surgery candidates.

One child who turns up in the dragnet is three-year-old Cristian Ispasioana, a towheaded boy with a cleft palate. Cristian's mother is astounded that the American surgeons would actually seek out children to operate on.

"How can a U.S. man have the pleasure to operate on Romanian children for free?" she asks through an interpreter. Upon meeting members of the team, her joy deepens. "I am very happy with the American doctors," she says. "Romanian doctors don't play with the children. The Americans are more happy and they speak differently to the children."

The difference in attitude between the Americans and their Romanian counterparts is glaringly obvious. While the Romanians are competent and eager to help out around the operating tables, many of the older doctors exude a palpable sense of disillusionment. Their eyes have the flatness of those who have been disappointed too often to gamble on hope again.

"I get the feeling the Romanian physicians feel very frustrated because they have been left out of the medical mainstream," says Lawrence, whose day job is overseeing the University of North Carolina's Plastic Surgeon Training Program. "I think the greatest effect we can have here is letting people know that we care."

Magee concurs. "The Romanian people, as I see it, need an uplift," he says. "If we can be the spark that gets a [medical] revolution going, then we have done what we wanted to do."

Rebuilding Through Private Effort

While much of the Romanian medical corps has gone limp under the straitjacket of the Health Ministry, there are doctors who have struggled against the system and the mediocrity it breeds, brilliant surgeons like Ionescu, who has campaigned publicly for privatization of the health care system despite the fear of reprisals by the state.

And there are stalwarts like Alexandru Pesamosca, 63, President of the Romanian Pediatric Surgical Society. A large, energetic man, Pesamosca has personally trained many of Romania's pediatric surgeons. The most renowned physician in the country, Pesamosca has remained true to his own standard of excellence despite a lifetime of professional adversity.

But in a system that strives for mediocrity, excellence demands sacrifice. Until the revolution, Romanian doctors were discouraged from attending Western medical conferences and were taxed so heavily on foreign medical texts that knowledge of modern medical advances was almost inaccessible. But Pesamosca is fond of recalling how he once disdained government regulations to attend a symposium in Vienna, Austria, forced to travel with only a ham sandwich and the equivalent of two U.S. dollars in his pockets.

For years Pesamosca has dreamed of

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ROBBIE CHAFITZ

American and Romanian doctors work together at the operating table.

building a modern pediatric hospital on the grounds of Budimex. Although it seems to him that the U.S. $50 million it would take to build the complex might as well be lodged on the moon, Pesamosca refuses to abandon hope, using the looser atmosphere of the post-Ceausescu era to seek help from U.S. and European medical supply companies.

Fifty years of central planning has endowed the Romanians with a keen distrust of government. Although the Bush administration gave Romania $64 million in foreign aid in 1990, Dirina says that his government would rather spend the money on military equipment than on needles or X-ray machines.

When the Romanian government receives aid earmarked for medical relief, Dirina says, the hard currency goes into the coffers of the Health Ministry. But when the Health Ministry doles out funds to his hospital, it is invariably in Romanian *lei*, which is practically useless on the international market.

With recent elections bringing the country closer to a non-Communist coalition government, the Romanians sense a wind of change stirring over the horizon. But the doctors know that here, as in other former Eastern-bloc countries struggling to throw off the mantle of Communism, things could get much worse before they start getting better.

In fact, the belt-tightening has already begun. In 1991, the ruling Council for National Salvation announced 30 percent across-the-board staffing cuts in all health services.

So for the future, doctors say the best cure for their ailing hospitals, clinics, and orphanages will be the efforts of private groups like OSI and the volunteerism of people like Bill Magee, Frank Yeiser, and Tom Lawrence.

"In my country we have a proverb," Pesamosca says of life under Communism. "We expect the Americans to come at the first and the fifteenth of the month. I think now it is necessary to change what is a very difficult situation. To change, it is necessary that you are here."

Operation Smile's ten days at Budimex will not be the organization's sole contribution to the healing process. OSI is helping to sponsor a team of physical therapists who will rotate on six-month shifts, working with Solbritt Murphy to rehabilitate disabled orphans. But like their hosts, Operation Smile doctors look forward to the day when Romanian physicians will no longer be the orphans of the European medical community. "We'd like that," says Yeiser. "The ideal goal would be to put yourself out of business."

In the meantime, Operation Smile will continue to prove—both at home and abroad—that the most effective charity is not coerced by governments but is freely given by individuals. In the words of Tom Lawrence, "To repair a small child's deformed face is to give that child a special freedom. And that is what America and Americans are all about." □

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THE FREEMAN
IDEAS ON LIBERTY

THE QUESTION STILL LIVES

by Stephen Cain

After the first battle of Bull Run in 1861, Confederate President Jefferson Davis rode out to find a young relative who had been wounded and was reportedly sinking fast. After traveling many miles and witnessing painful scenes, but seldom finding the Confederate troops in the positions where his guide thought they would be, Davis decided to abandon his search.

Just as night approached, he accidentally met an officer of the relative's unit and was directed to the temporary hospital to which the wounded of that command had been removed. It was too late. The young relative had died just before Davis arrived. Only the boy's corpse lay before the Confederate president.

All around lay other young men suffering in different degrees from the wounds they had received at Bull Run. Davis tried to console them as best he could. He expressed sympathy to one bright, refined-looking youth from South Carolina, who appeared to be severely if not fatally wounded. The youth responded with what well might have been his last words: "It's sweet to die for such a cause."

Today, 132 years later, historians still debate what exactly the "cause" was that the South Carolina boy died for.

It is implausible that the boy so deeply believed that slavery was such a wonderful thing that he was proud to lay down his life for it. Confederate General Joseph E. Johnston wrote in his *Narrative of Military Operations During the Civil War* that the laboring "class, in the Confederacy as in all other countries, formed the body of the army." Most Confederate soldiers were common people who did not own slaves or were too poor to have a vested interest in slavery. These men more likely fought and died for the reason given by the man most remembered for the burning of Atlanta, Union General William T. Sherman, in his *Memoirs*: "I always acted on the supposition that we were an invading army."

Abraham Lincoln himself denied repeatedly that slavery was the issue in the Civil War. In his 1861 inaugural address, Lincoln said "I have no purpose, directly or indirectly, to interfere with the institution of slavery in the states where it exists. I believe I have no lawful right to do so, and I have no inclination to do so."

In any case, Confederate President Davis, who to his dying day long after the Civil War remained an "unreconstructed" rebel, insisted that the central issues under contention were limited federal government and the right of a free people to withdraw from a union they had voluntarily entered ("compact" as he called it) when it no longer served their purposes, much as the Soviet republics have done in recent times.

Davis asserted that "the government of the United States broke through all the

Stephen Cain is a free-lance historian and author who currently resides in Thailand.

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limits fixed for the exercise of the powers with which it had been endowed, and, to accomplish its own will, assumed, under the pleas of necessity, powers unwritten and unknown in the Constitution, that it might thereby proceed to the extremity of subjugation." If Davis were alive today, he might pose some interesting questions by way of comparison with Civil War times: If Quebec votes to separate from Canada, would the rest of Canada be justified in making war on Quebec to force it to rejoin Canada? If Scotland secedes from Great Britain, which is entirely possible, should Scotland be invaded and forced at gunpoint to rejoin Britain on Britain's terms?

One of Davis' favorite quotations was the Tenth Amendment to the U.S. Constitution: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

The Confederate president begrudgingly admitted losing the Civil War on the battlefields: "We have laid aside our swords; we have ceased our hostility; we have conceded the physical strength of the Northern states."

"But the question still lives," wrote Davis after the war. "The contest is not over, the strife is not ended. It has only entered on a new and enlarged arena. The champions of constitutional liberty must spring to the struggle . . . until the government of the United States is brought back to its constitutional limits."

Constitution of the C.S.A.

Although the Confederate government in practice ended up being far from a model of either efficient management or sound economic policy, the *written* basis of the alliance at least, the Confederate Constitution, embodied some ideas still relevant even today.

The permanent Constitution of the Confederate States, adopted on March 11, 1861, was mostly taken verbatim from the U.S. Constitution, with the words "Confederate States" substituted for "United States." The preambles to both use very similar language. The words "We the people of the United States," in one, are replaced by "We, the people of the Confederate States," in the other; another clause, "each State acting in its sovereign and independent character" is added in the Confederate preamble. Both Constitutions comprise seven Articles, but the Confederates incorporated within them the 12 Amendments that had been made to the U.S. Constitution as of 1861 (including the first ten that are known as the Bill of Rights).

The *New York Herald* of March 19, 1861, wrote: "The new Constitution is the Constitution of the United States with various modifications and some very important and most desirable improvements. We are free to say that the invaluable reforms enumerated should be adopted by the United States, with or without a reunion of the seceded States, and as soon as possible."

The official term of the Confederate president was fixed at six instead of four years, as in the original draft of the U.S. Constitution of 1787. A one-term limit applied; he could not be re-elected.

The Confederate Constitution promoted free trade by prohibiting protective duties levied for the benefit of any particular industry, which practice had previously been a source of trouble for the U.S. government. (Unfortunately, a free trade policy does one no good if one's ports are blockaded. Lincoln ordered a blockade of Southern ports on April 19, 1861, and it became increasingly effective as the war wore on.)

The cost overruns that have plagued U.S. government contracts in recent decades were simply outlawed in plain language in the Confederate Constitution: "Congress shall grant no extra compensation to any public contractor, officer, agent, or servant, after such contract shall have been made or such service rendered." How much could those words have saved U.S. taxpayers had they been in effect since 1861?

The Confederate president was authorized to approve any one appropriation and disapprove any other in the same bill—what is today called the line-item veto—which

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authority Presidents Reagan and Bush have strongly advocated.

"To establish post offices" was written into both constitutions, but the Confederates added, "but the expenses of the Post-office Department, after the first day of March, in the year of our Lord, eighteen hundred and sixty-three, shall be paid out of its own revenues."

The importation of slaves was forbidden in the Confederate Constitution, except from the other states still belonging to the United States.

Section Eight of the very first Article in the U.S. Constitution lists the powers delegated to Congress. Although the word "welfare" did not have the same connotation it often carries today—there were no "welfare payments" in 1861—it is curious to note that the Confederates eliminated the word from both Section Eight and the preamble. Instead of "To lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States," the Confederates gave their Congress the power "To lay and collect taxes, duties, imposts, and excises, for revenue necessary to pay the debts, provide for the common defense, and carry on the Government of the Confederate States."

In the years before the Civil War, some Southern representatives in the U.S. Congress had argued that it was unconstitutional for Congress to make appropriations from the common treasury of the United States to pay for local improvements, which would commonly represent political gains for local politicians as well. The Southerners resented what they saw as the mass of such appropriations going to projects in Northern states. The framers of the Confederate Constitution thus sought to rule out "pork barrel" spending by stipulating that no "clause contained in the Constitution shall ever be construed to delegate the power to Congress to appropriate money for any internal improvement intended to facilitate commerce; except for the purpose of furnishing lights, beacons, and buoys, and other aid to navigation upon the coasts, and the improvement of harbors, and the removing of obstructions in river navigation, in all which cases, such duties shall be laid on the navigation facilitated thereby, as may be necessary to pay the costs."

A Confederate provision that was ahead of its time is one that perhaps only law librarians and researchers could fully appreciate:

"Every law, or resolution having the force of law, shall relate to but one subject, and that shall be expressed in the title."

While the Confederate Constitution has today become little more than a curiosity from a bygone age, the best news of all is that . . . .

The U.S. Constitution Still Lives!

Come election time, it is edifying to observe how many candidates for re-election seem to remember suddenly that there is such a thing as a U.S. Constitution. It's a dead giveaway when a candidate begins using words that voters have not heard him or her use for the past two (or four or six) years: "reduced spending and taxes"; "free trade"; "justice"; "reduced federal interference in our lives"; "law and order"; "the American dream."

A U.S. president, as spelled out in the Constitution, takes an oath to "preserve, protect and defend the Constitution of the United States." But just as World War II General George Patton allegedly read his Bible every day, all elected representatives of the people might do well to "preserve, protect, defend, and *read* the Constitution of the United States" every day. After all, there are only seven original articles, plus the amendments.

With an informed electorate committed to individual responsibility in a free society, it may yet one day be possible to have a president, senators, and representatives, who, to the best of their ability, work to establish justice, ensure domestic tranquility, provide for the common defense, promote the general welfare, secure the blessings of liberty to ourselves and our posterity, and *nothing else*. □

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BOOKS

Rubbish! The Archaeology of Garbage
by William Rathje and Cullen Murphy
HarperCollins Publishers, Inc., 1992 • 250 pages • $23.00

Reviewed by Jeff A. Taylor

In 1990 a Roper Poll asked respondents to name products which caused major garbage disposal problems in the United States. Disposable diapers were named by 41 percent as a big garbage headache—an altogether reasonable guess given the amount of attention diapers had received by the media. The problem is that in reality disposable diapers take up only 3 percent of landfill space and are in many ways an environmental improvement over cloth diapers.

If not for the work of the University of Arizona Garbage Project, such misconceptions would enjoy even wider currency. William Rathje and Cullen Murphy tell the fascinating story of the Garbage Project, which Professor Rathje has overseen for 20 years and through 28,000 pounds of garbage excavations. By bringing the cold rationality of archeology to bear in the modern landfill, the Garbage Project has demolished many myths about garbage and unearthed important ancient truths about human society.

A major victim of the facts turns out to be the crisis mentality which has characterized public debate on the subject in recent years. Rathje and Murphy combine the Garbage Project's newly gleaned information with knowledge of pre-industrial societies to put the concern over waste disposal into a true historical context. The result is compelling evidence that civilization and garbage go hand in hand and that garbage problems are certainly nothing new.

Rathje and Murphy point out that the pre-Columbian Maya likely suffered through periodic methane explosions at their open waste pits. As some items became scarce, they also learned to recycle various bits of ornamentation and building materials. Rathje and Murphy also believe that the history of the Maya and other ancient peoples shows the same pattern of garbage generation: "Over time, grand civilizations seem to have moved from efficient scavenging to conspicuous consumption and then back again to the scavenger's efficiency. It is a common story, usually driven by economic realities." The developed world in general, and America in particular, are seen by Rathje and Murphy as moving back into scavenger mode after a stint of conspicuous consumption.

The authors also take a shot at those who believe modern society has developed an altogether new and environmentally devastating "throw-away" mentality. They compare today's fast-food styrene "clamshells" with clay bowls from ancient Iraq which appear to have been produced with a single-use lifetime in mind. They even speculate on the amount of waste generated if the 5,000-year-old bowls were used as hamburger containers and conclude that in this respect, at least, the new idea is the better one.

But Rathje and Murphy are careful not to posit a technological solution to all garbage problems. They stick to the garbage facts and are not utopians. While noting the contribution at-home garbage disposals have made to the reduction of wet garbage, they do not foresee a new "magic bullet" which will reduce the remaining types of garbage. They do, however, note the potential of new waste-to-energy plants like SEMASS, located in Rochester, Massachusetts. A consortium of five private firms runs the SEMASS facility which produces fewer emissions than conventional power plants. Employing such new technologies while making a careful cost-benefit analysis of their impact is about all we can hope—and need—to do.

Rathje and Murphy single out one important and often overlooked benefit which comes from the effect packaging—be it paper, styrene, or plastic—has on food waste. By comparing garbage produced in Mexico City with that found in Tucson,

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Milwaukee, and California's Marin County, the Garbage Project found that because of the much-maligned packaging "U.S. households, on average, produce a third less garbage than do households in Mexico City." Then there are the cost savings produced by ever-lighter forms of plastic packaging—a development so overlooked that Rathje and Murphy dub plastic "the Great Satan of garbage" because of the fervent misconceptions about plastic's role in the waste stream. Rathje and Murphy correctly note that it has been "sheer profit," not government edict which has spurred the adoption of these new materials.

While the effect of plastic throw-aways is constantly overestimated, Rathje and Murphy note that paper is rarely cited as the garbage problem that it is. Ninety-four percent of the Roper Poll respondents who found disposable diapers such a threat failed to view paper as a garbage problem. This although paper products take up 40 percent of all U.S. landfill space. The paper glut has also helped to fuel what Rathje and Murphy see as sometimes misguided recycling efforts.

Thanks to apocalyptic tomes like the Club of Rome's *Limits to Growth* (1972), Rathje and Murphy note that "[r]ecycling has been embraced by some with an almost religious intensity." This fervor results in collecting and hoarding materials which can never be recycled because there is no market demand for them. The City of Seattle's much praised recycling program, for example, ends up shipping tons of newspapers to Asia in response to market demand.

In turn, state and local governments have tried to "stimulate" the U.S. market for recycled paper by passing laws mandating recycled paper's use by government agencies. More directly, some groups are pressing Congress for mandatory recycled content legislation (in effect a virgin-paper ban) to force publishers to use recycled newsprint. Rathje and Murphy have little enthusiasm for such approaches, calling them mostly "symbolic."

But while Rathje and Murphy see the futility of banning some products, their wholly pragmatic belief in using monetary incentives to change behavior invites more government meddling in the waste stream. Although they may have in mind "simple tinkering with fees," recyclers and waste disposal firms are already thinking of special investment tax credits and government-backed loan guarantees for their endeavors.

However, in fairness to Rathje and Murphy, they did not set out to find ways to get government out of the garbage disposal business. Instead, they have done us the great service of proving that the garbage doomsayers have been talking trash for years. □

Jeff Taylor is National Political Reporter for syndicated columnists Evans and Novak in Washington, D.C.

Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector from Schoolhouse to Statehouse, City Hall to the Pentagon

by David Osborne and Ted Gaebler

Addison-Wesley Publishing Company, Inc., Reading, MA 01867, 1992 • 405 pages • $22.95

Reviewed by T. Franklin Harris, Jr.

The search for a "third way" somewhere between socialism and capitalism is to the modern era what the search for the philosopher's stone was to the Dark Ages. Although the implosion of the Soviet Union has put a damper on calls for more bureaucracy, most people harbor various misconceptions and fallacies that make them equally distrustful of fully free markets. So, yet another pair of would-be alchemists has set out in search of that elusive goal—big-government order without the big government.

In *Reinventing Government*, David Osborne and Ted Gaebler attempt to chart a course between big government and laissez faire. They want nothing to do with "ideology." Rather, Osborne and Gaebler are

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technocrats in search of pragmatic answers. "*Reinventing Government*," they write, "addresses *how* governments work, not *what* governments do." Thus, from the standpoint of what governments do, the book is a proverbial grab bag of policy prescriptions—some good, some bad.

In the course of the book's eleven chapters, Osborne and Gaebler lay the foundations for what they call "entrepreneurial government." That is, government that is active, but bereft of bureaucracy and its attendant red tape and inefficiency. In Osborne and Gaebler's paradigm, the problems that America presently faces are all a result of the reforms of the Progressive Era. The large bureaucracies set up to discourage corruption and abuses of power actually waste more resources through regulations and procedures than they save. To stop a small number of crooks, bureaucracy must tie the hands of honest employees.

Osborne and Gaebler outline a series of sweeping reforms, all aimed at changing the entire focus of government. The old way of thinking envisions a government that identifies problems and then introduces an agency or program to solve the problem. The result has been a plethora of large bureaucracies and programs targeted at specific problems but achieving no real success. Entrepreneurial government identifies broad social goals. Instead of being burdened with hierarchies and rules, agencies are allowed great leeway within which to meet the goals. The civil service system is replaced with a system that rewards innovation and holds employees responsible for failure to meet goals.

Old methods of budgeting are scrapped. The line-item budget does not permit innovation nor the flexibility needed to deal with the unforeseen. Furthermore, the practice of throwing more money into programs that do not work must end. Such a policy encourages failure. Instead, programs that succeed will be rewarded with the funds to expand. Programs that fail can be weeded out over time.

The purpose of government, Osborne and Gaebler contend, is not actually to deliver services, but to set policy. They call it steering rather than rowing. In order to deliver services, governments can contract out to private providers, utilize government providers in competition with private firms, or utilize different government firms in competition with each other. Only in the case of so-called natural monopolies—such as utilities—should government be the sole provider.

Osborne and Gaebler provide anecdotal evidence of the success of "entrepreneurial government." For example, in Phoenix, Arizona, the city-owned garbage collection firm competes on an equal footing with several private firms. The result has been a decrease of 4.5 percent a year in solid-waste costs.

Another example is the East Harlem school system. East Harlem, thanks to a system of public school choice, has some of the most successful public schools in America. This is despite the dire economic conditions that prevail in the district. Students can choose between different schools (some located within the same building) operating independently, with programs tailored to meet the tastes of different students. Osborne and Gaebler seek a decentralized government, with control of programs exercised at the lowest possible level. In the Kenilworth-Parkside development in Washington, D.C., the residents were given control over their own housing project. They wrote their own by-laws and took charge of making repairs. Eventually, the residents started their own adult education program and created a fund to help finance business ventures taken on by enterprising residents.

When it replaces the bureaucracies of old, "entrepreneurial government" is indeed an improvement. Still, the effects must be temporary. "Entrepreneurial government" can only delay the inevitable. Most "entrepreneurial government" schemes still leave a gap between those who consume a service and those who pay for it. The costs are spread over a broad tax base. Only specific groups, however, actually receive the service. Thus, the "customers" are partially

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subsidized by non-customers. The result is that the demand for the service is greater than it would be if the customers had to pay the full price. The public good is inevitably overproduced and resources misallocated.

Of course, "entrepreneurial government" is even worse when applied to areas already relatively free of government intervention. "Entrepreneurial government" seeks to "structure" the market. As Osborne and Gaebler note, structuring "is a way of using public *leverage* to shape private decisions to achieve collective goals. It is a classic method of entrepreneurial governance: active government without bureaucratic government."

The problem with Osborne and Gaebler's analysis is its short-sighted empirical framework. In their preoccupation with finding whatever solution will "work," they ignore basic principles of how human beings behave and how markets operate. When policy planners structure the market, they change the incentive system. Resources flow into areas in which they otherwise would not. The planners only have two choices: They can send resources to where *they* think they are needed, or they can send resources to where already overestimated customer demand is greatest. In either case, inefficiency will result. Even with the political reforms Osborne and Gaebler mention (campaign finance reform, term limits, etc.), decisions concerning resource allocation will still be politically motivated—not economically motivated.

Economic intervention, whether performed by a bureaucracy or an "entrepreneurial government" will always result in inefficiency. Osborne and Gaebler's attempt to make entrepreneurial government an end rather than a means is misguided. Bureaucracy is not the problem. *Government intervention* is the problem. Laissez faire is the solution. □

T. Franklin Harris, Jr., resides in Auburn, Alabama, and is a contributing editor to Republican Liberty.

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